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# BUSINESS WEEK

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Black Star

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Business on the slide—a department store old slide. Equipment suppliers and the railroads hope for a record winter sports season.

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1938

# HOW THE ENGINEER "FROM MISSOURI" WAS SOLD

Another true case history  
from the Allis-Chalmers  
files that proves "IT PAYS  
TO BUY THE EQUIPMENT  
THAT PAYS FOR ITSELF!"

**Read How the Chief Engineer of  
a Mid-Western Utility Sold Him-  
self on Allis-Chalmers Equipment!  
Find Out What Allis-Chalmers  
Can Do to Cut Your Costs . . .  
Increase Your Profits . . . with  
the Equipment that Pays for Itself!**

The chief engineer of the C———  
Power & Light Co. was a hard man to  
sell. Like the man from Missouri, he  
had to be shown . . . shown what  
equipment could do for him . . . shown  
that Allis-Chalmers equipment could  
pay for itself on his system!

"I've listened to your arguments," he told an Allis-Chalmers representative, "about the virtues of your  $\frac{5}{8}\%$  Half-Cycling Step Feeder Voltage Regulators. And . . . I'll admit it . . . you've got some great engineering advantages there.

## Brings Increased Profits!

"But . . . other types of voltage regulators have a good story, too. And I've decided to find out for myself what's what! I've got an Allis-Chalmers unit with  $\frac{5}{8}\%$  steps. Now I'm going to get one with larger steps. We'll try them out on our own system, under

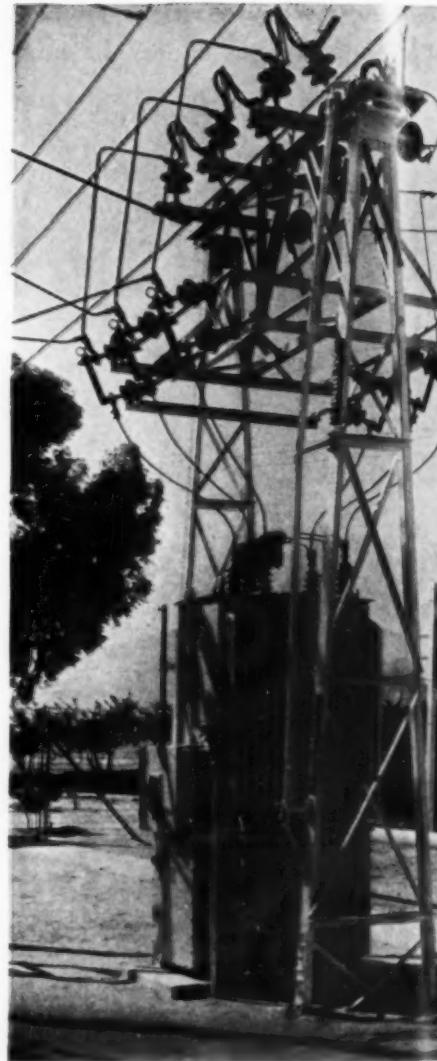
exactly the same conditions. And we'll find out just how the standard Allis-Chalmers Half-Cycling Step Regulator stacks up against the others!

The "engineer from Missouri" did just that. And the Allis-Chalmers Regulator did just what the Allis-Chalmers representative said it would. It brought increased profits, increased customer satisfaction, improved service, and lower maintenance costs to the C——— Power & Light Co.

## Learn What Allis-Chalmers Can Do for You!

No wonder the chief engineer of this utility specified Allis-Chalmers when regulators were installed throughout the system. No wonder that other informed executives in every industry standardize on Allis-Chalmers equipment. For the experience of leading public utilities has been duplicated in thousands of plants throughout the country . . . where Allis-Chalmers equipment is piling up savings in dollars and cents every day in the year!

Find out what 90 years of engineering experience can do for you. Call the nearest District Office, or write direct to Allis-Chalmers, Milwaukee. Let an engineer, trained in solving production problems, show you where in your plant you can save . . . with Allis-Chalmers equipment . . . the equipment that pays for itself!



Keeping voltage constant is this Allis-Chalmers 228 kva, 13,200 volt  $\frac{5}{8}\%$  Half-Cycling Step Automatic Feeder Voltage Regulator.

## PRODUCTS ENGINEERED TO PAY FOR THEMSELVES

Electrical Equipment • Power Transmission Equipment •  
Steam and Hydraulic Turbines • Blowers and Compressors  
• Engines and Condensers • Centrifugal Pumps • Flour and  
Cereal Mill Equipment • Boiler Feedwater Treatment •  
Saw Mill and Timber Preserving Machinery • Crush-  
ing, Cement, and Mining Machinery • Power Farming  
Machinery • Industrial Tractors and Road Machinery



**ALLIS-CHALMER**  
MILWAUKEE, WISCONSIN

Business

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(page 12)

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## THIS BUSINESS WEEK



"Business on the Slide" is the caption for this week's cover picture but "Expect Big Winter Sports Season" is the story (page 12) behind the cover.

TWO YEARS AGO, when BUSINESS WEEK brought out the first of its special Reports to Executives, we stressed the fact that they would appear only when news developments demanded treatment in report form.

Since then, their editorial success—subscribers have requested over 100,000 reprints of the first 19—has sometimes tempted us to let schedules, instead of subjects, date them—to hit you, say, once a month. But this temptation has been resisted and intervals between reports have ranged from several weeks to a number of months. Now at the year-end—a financially slim year-end, too—the news seems to us to demand two reports in successive weeks, so in they go.

The Background of the 'Anti-Monopoly' Investigation" has been worked on for several weeks. It's in this issue (pages 21-25) to give you an appraisal of the government's big probe of business during the holiday interruption of the Temporary National Economic Committee's hearings. "1939—Television Year" will be in the Dec. 31 issue to start off your new year with the most complete practical information you have ever had on the country's newest industry. Its 16 pages, fruit of months of work with the country's leading experts, make it our biggest report to date.

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## THE Choice OF UTILITIES

In the 93 Cities of 100,000 or More Population  
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Companies, or Municipal Departments . . .  
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CORPORATION, Cleveland, Ohio**

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Sales promotion  
Shipping forms  
Social Security reports  
Social service**

**Stockholder lists  
—and in GOVERNMENT:  
Assessment records  
Licenses  
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Voters' lists**

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# NEW

## McGRAW-HILL

### BOOKS

#### 1. TESTED DISPLAY IDEAS

Compiled by the editors of *Printers' Ink*. A stimulator and source book of display fundamentals and ideas, illustrated by 102 actual successful displays. A practical manual for all who want to plan or use displays more effectively. \$2.00



#### 2. PROBLEMS IN PUBLIC UTILITY ECONOMICS AND MANAGEMENT

By C. O. Ruggles, Harvard University. New Second Edition. Applies the case method to the analysis of problems dealing with economic and business aspects of public utilities. One hundred and twenty problems, all based on actual cases, are included. \$6.00

#### 3. A TEXTBOOK OF LAW AND BUSINESS

By William H. Spencer, University of Chicago. New Second Edition. Gives a readable, accurate account of the history of the common law, its present state, and some considerations of important recent legislation. \$4.00

#### 4. THE ECONOMICS OF LABOR— VOLUME I: Labor's Progress and Some Basic Labor Problems

By Harry A. Millis, University of Chicago, and Royal E. Montgomery, Cornell University. Traces the material progress of workers during recent years as reflected in wages, incomes, distribution of the national income, etc. \$3.75

#### 5. THE ECONOMICS OF LABOR— VOLUME II: Labor's Risks and Social Insurance

Offers a wealth of factual detail concerning the problems of unemployment, industrial injury, sickness, invalidity and old age; and a frank evaluation of unemployment compensation, health insurance, and provisions for the old. \$3.00

#### 6. FINANCIAL ORGANIZATION OF THE ECONOMIC SYSTEM

By Harold G. Moulton, President, Brookings Institution. New Fourth Edition. A detailed study of money, credit, and banking, and their relations with production, prices, and other economic problems. \$3.50

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## NEW BUSINESS

### Package Wrapping Contest

SOUL-SEARING drudgery of wrapping Christmas presents was capitalized by Stix, Baer & Fuller, St. Louis department store, in a gift package wrapping contest for customers with prizes ranging in value from \$15 to \$2. . . . In several metropolitan railroad stations holiday organ music speeds the hot-footing commuter. . . . In Boston's North Station the Boston & Maine RR staged carol-singing recitals. . . . Velvet ties for men were tried out on this year's Christmas shoppers.

### Send-Off for New "Gas"

GASOLINE MARKETS are still in a state over Indiana Standard Oil's new leaded third grade gasoline (BW—Dec 17 '38, p32). Price will be the same as company's former third-string brand. Consumers will be told of innovation by one-shot advertisements in 1,553 daily and weekly newspapers in the Midwest. When distribution reaches Rocky Mountain regions the ad will appear in 193 additional papers there.

### Safety Valve for Cows

PAINFUL TECHNIQUE of puncturing glutinous cows with pitchforks to relieve them of gas bloat can be abandoned by adoption of Dr. P. J. Christiansen's (of Bennington, Neb.) aluminum safety valve which is permanently inserted in cow's side. Bossies so equipped can gorge on alfalfa, the valve allowing dangerous gas to escape (with a musical whistling sound). . . . Liquor companies bedeviled for donations and advertisements by wholesale and retail trade groups have hopped out of reach by requiring all future requests to be passed on by Distilled Spirits Institute. . . . B. Altman & Co., New York store, exhibits a suite of bed room furniture made entirely of glass. . . . Libbey-Owens-Ford, Toledo, has produced "golden plate" mirror glass containing color which gives appearance of gold backing though regular silver backing is used.

### Daddy's Day

TRADE PUBLICATIONS devoted to men's wear, tobacco, shoes, jewelry, hardware, home furnishings, toilet articles pledge support to renewed promotion efforts of National Council for the Promotion of Father's Day (the third Sunday in June). . . . Double feature movie bills, which cause countless millions of fans to groan, said to be on wane because next year major-company releases will not be sufficient to keep theaters supplied. . . . A Scottish inventor has patented a synthetic shaft for golf clubs made of cotton,

jute, a special resin, with metal reinforcing. . . . Frank E. Leslie, East Bridgewater, Mass., encouraged loafing (sales) by fitting up unused rear room his drug store as a "club room" patrons.

### More Streamliners

CHICAGO & NORTHWESTERN will pay \$20,000 for two streamlined trains driven by oil-electric locomotives, capable 120 miles per hour, to run between Chicago, and St. Paul and Minneapolis. Visitors to San Francisco's exposition will enjoy hot dogs cooked by a water shower bath, a method developed by P. F. Rathjens & Sons of that city. Canada Dry Ginger Ale, Inc., New York, brings out Spur Cola, a new drink which also will be promoted as a mixer wine.

### Reminders and Devices

THE YORK ICE MACHINERY CORP., York, Pa., reminds consumers that many keys sacrificed for the holidays pass through the difficult first months of in completely air-conditioned buildings. . . . Before interviewing salesmen, For Cafeterias, Kansas City, inquires the integrity of their companies by requiring each to submit a standard brochure covering its history, financial and association standing, personnel, clientele, scientific qualifications, price policy, ethical ideas. . . . Oversized fishermen may get an idea from hypodermic harpoon which injects anesthetic and temporarily stuns a fish. Developed by Count Ilya Tolstoy, it is being used to capture specimens at the Marine Studios' oceanarium, Augustine, Fla.

### Safety Drive Takes in Dogs

THE DRIVE for highway safety is being broadened to include dogs. New York State has a law penalizing the hit-and-run driver who strikes a dog and fails to report the accident. The act was sponsored by the Noble Dog Foundation, New York City. The Foundation is campaigning for similar legislation in New Jersey and Connecticut.

### Co-op Claims Credit

THE OHIO FARM BUREAU COOPERATIVE Association was this week singing a favorite co-op theme song: that a fundamental value of the cooperative movement is the brake it exerts on private business. The Ohio co-op claims that it saved farmers in the state \$1,900,000 in gasoline, motor oil, and kerosene in the current year, by forcing a reduction of 2½¢ a gal. on gasoline, 1¢ on kerosene and 10¢ on motor oil.

## WASHINGTON BULLETIN

**WASHINGTON (Business Week Bureau)**

When it was first reported that Harry Hopkins might be appointed Secretary of Commerce, the idea seemed incongruous to most people. But this was because they did not understand what was in the back of a few New Deal heads.

Don't forget that Leon Henderson, spark plug of the (so-called Temporary) National Economic Committee, was WPA's economist. Shifting Hopkins to Commerce and implementing that department with a Bureau of Industrial Economics (this is being talked up hard now as an extension of TNEC's present study) is all of a piece with the kind of talk that was coming from the White House a year or so ago about business men and the government doing two things: (1) getting their feet under the table to do the kind of thinking and planning that will keep business on an even keel; (2) but relying on active competition to raise utilization of industrial capacity to a higher level.

### Regulation in Emergencies

THIS APPROACH to greater economic stability at an elevated level of production and consumption doesn't offer any assurance to industrial executives who believe that the government could do nothing better than leave business alone. But more straight-arm government regulation is not the objective either.

In the scheme of things that TNEC is now developing, government regulation is the alternative to be resorted to only when removal of the brakes imposed on competition by various business practices and government policies fails to push up and maintain industrial activity at a level of 65% of capacity or better.

### Hopkins-Henderson Team

THE HOPKINS-HENDERSON combination is a natural from the Administration's viewpoint, and the Department of Commerce, which was sidetracked under "Uncle Dan" Roper, is the logical spot on which to locate the new giddyup-whoa technique.

Important in this tentative line of action is a real effort, already demonstrated by TNEC's procedure, to get close to the facts of business life. This involves, first, a valuation of present practices affecting production, distribution, prices, etc., and the contributory effects of government policies of taxation, tariff, investment in public works, patents, etc.

### Path to the Presidency?

ALL THIS IS STILL very much "in the large" but is the direction in which the Administration is moving. In coming months the TNEC will round out the picture by disclosing many specific aspects of its coverage. After TNEC has

Dealers that the same road that took Hoover to the White House might take Harry Hopkins there.

### Reforming Patent Methods

WHEN TNEC hearings resume a week or 10 days after Congress convenes, the direction of the patent inquiry will shift from the monopolistic effect of patent controls to the cumbersome procedure and litigation that now burdens the patent laws. The Commerce Department will make a detailed statement on this subject, and patent attorneys, much worried by the probing of the Justice Department into the glass container industry, will have their innings. Their recommendations will present no novelties. The most important will be aimed at cutting down the time that patent applications remain in the Patent Office and creating a single court of patent appeals.

### FTC to Tell Its Story

THE FEDERAL TRADE COMMISSION'S observations on its experience with various regulatory laws, particularly the Clayton Anti-Trust Act, will be the next chapter, after patents, in the TNEC's investigation. The Trade Commission recently renewed its recommendation to limit the size and power of corporations by amending Section 7 of the Clayton law so as to prohibit a corporation from acquiring the stock or assets of another if the two control 10% of the total output of any branch of industry or sale of the product.

### Facts on Insurance Firms

THE FRUITS OF SEC's investigation of the insurance companies will be presented to TNEC in mid-February, according to present plans, but may be delayed. Progress of TNEC hearings will slow down, as the Congressional members of the committee will have their regular chores to do when Congress convenes.

One of the committee's problems will be to fight off-side legislation that any baker's dozen of Congressmen may propose on the basis of TNEC's work. Here is revealed TNEC's fine strategy in pairing off its members representing the Justice Department, SEC, Trade Commission, and other executive agencies with its Congressional members so that the latter become the official sponsors of legislation growing out of its study.

Some legislative recommendations will be submitted to the coming session. Revision of the patent laws and some tightening of present anti-trust law procedure, expected to be along lines suggested by

### Wants a Fight



*The Wage-Hour Administration is spoiling for a fight, but has had difficulty locating somebody who dares to knock the chip off its shoulder. Administrator Andrews' staff isn't looking for trouble, but thinks that a clear-cut court decision would simplify enforcement. Now, however, A. F. Fletcher (above), the man in charge of compliance, thinks he's found his match in his home state, North Carolina, if the publicity that's in prospect doesn't give cold feet to the textile firm reported ready to challenge the Administration's authority.*

served its purpose, the Bureau of Industrial Economics would carry on.

It's no secret that Henderson may be making a big job for himself as head of the new bureau and likewise for Hopkins as Secretary of Commerce by restoring the importance of the Commerce Department. And it's not beyond the free-running imagination of New

# ECONOMY OF MODERN HEATING SHOWN IN SAVINGS

**Webster Moderator System Saves Commerce Building \$7,986 in Less Than Three Years**

**OWNED BY JACOB RUPPERT REALTY CORPORATION**

**Modernization Assures Comfort of Tenants in Well-Known Office Building**

**BALANCED HEATING SERVICE**

New York, N. Y.—In less than three heating seasons, the 31-story Commerce Building, at 155 E. 44th Street, has cut heating costs \$7,986.80.

This substantial reduction in steam costs was accomplished by installing the Webster Moderator System in a building only three years old at the time of heating modernization.

No shot in the dark was this Webster Heating Modernization Program. A careful analysis of the performance of the Webster Moderator System in many similar installations convinced the Cross & Brown Co., Managing Agents for the Commerce Building, of the soundness of heating modernization. In two other New York buildings managed by the Cross & Brown Co., at 183 and 285 Madison Avenue, the Webster Moderator System had previously shown its effectiveness in reducing heating costs and improving steam distribution.

The new system saved steam from the day it went into operation, March 16, 1934. From then until the end of the 1933-34 heating season, although this period was necessarily devoted to adjustment and working out of operating procedure, there was a substantial decrease in heating costs.

During 1934-35 and 1935-36, although the occupancy was increased to almost three times the occupancy during the base period and the weather was more severe, there was only a very moderate increase in the total steam consumed. The cash value of steam savings, as measured under the contract, totalled \$7,986.80 for the two and a fraction seasons with the Webster Moderator System.

The installation contains 44,800 square feet of installed direct radiation.

Campbell & Smiley, Inc., acted as modernization heating contractors.

These before-and-after facts point the way to maximum comfort and economy in heating new buildings as well as in modernization of existing installations. Consult your architect, engineer or heating contractor. Or address WARREN WEBSTER & CO., Camden, N. J. Pioneers of the Vacuum System of Steam Heating Representatives in 60 principal U. S. Cities—Est. 1888

Assistant Attorney General Arnold, are on the spring book.

TNEC's speed in dissecting the economic system will depend on how much more money Congress will put up. The first half million dollars will be spent by May and the committee hopes it will get \$1,500,000 more. If it is disappointed, its studies will take more time, as government agencies now working for TNEC on the side will have to scrape up the money out of their own appropriations.

## Bigger War Orders

ALL REQUESTS for bids under the "educational" war orders program have gone out to eligible manufacturers and it's expected that contract awards will follow about the last of January.

In the new defense program, the educational orders program, established on an experimental basis this year, will be expanded next year. If Assistant War Secretary Louis Johnson's hope materializes, Congress will raise the appropriation from \$2,000,000 to \$20,000,000. The object is to train labor and develop assembly line technique for the mass production of technical munitions when war comes.

## SEC on Warpath

OPINION at the Securities and Exchange Commission is that a new law will not be needed to tighten up accounting procedure. It's not the nature of Bill Douglas to cry over spilt milk but if there were red faces among public accountants when the McKesson & Robbins story broke there were SEC officials who didn't try to conceal their chagrin. They don't hope to develop an absolute preventive but they are determined to establish a compulsory prophylaxis.

## Vetoed But Not Stopped

VETO by the Comptroller General of \$3,050,000 of loans by the Farm Security Administration to finance five cooperative silk throwing and hosiery plants on homestead projects will not interfere with their establishment as the money has gone out. The adverse ruling would bar such projects in future unless Congress acts, but the Comptroller General will be under pressure to reverse his stand.

The loans were made on the same pattern as was approved a year ago when FSA financed a co-op pants factory and dimension lumber plant; competition with private industry, one of the counts recited by the Comptroller General, has nothing to do with the legal question involved.

## Steel Wage Protest

PUBLIC CONTRACTS BOARD is expected to stick to its guns in proposing only two regional minimum wage rates in the steel industry on government contracts but to appease the small independents

## Report to Executives

THE HOLIDAY HIATUS in the "anti-monopoly" probe doesn't mark even the end of the first period of the Temporary National Economic Committee's game with business. The patent phase of the Washington hearings isn't completed yet, and that's only the beginning. This is just time out for a breather and a little holiday cheer.

BUSINESS WEEK takes advantage of the interruption to issue a special Report to Executives on "The Background of the 'Anti-Monopoly' Investigation." Part of that background and part of the report is the business picture of America that the committee got from government economists at its opening sessions. Your chance to check up on that view of things and to catch up on what TNEC means to you begins on page 21.

by permitting them to file exemption Washington observers reckon as a possibility an appeal to the courts by of the larger companies. Bethlehem mentioned.

## Dr. Uncle Sam

INDICTMENT of the American Medical Association for restraint of trade under the anti-trust laws, regardless of the outcome of the legal issue, will give a big boost to the federal aid health program which was outlined this week by the Roche committee and which the President will submit to Congress. Initial legislation is rated as certain next session.

## Limelight for Clark

PRESIDENTIAL POLITICS will complicate the national defense situation in Congress. Sen. Clark of Missouri, who fought the President on the Court and reorganization bills and was reelected by 280,000, will lead the opposition to many of Roosevelt's recommendations.

Clark, who led the neutrality fight to eliminate every possible element of Presidential discretion, is one of the most-talked-about candidates for President. He believes the preparedness issue will line up the West for him as against "saber-rattlers."

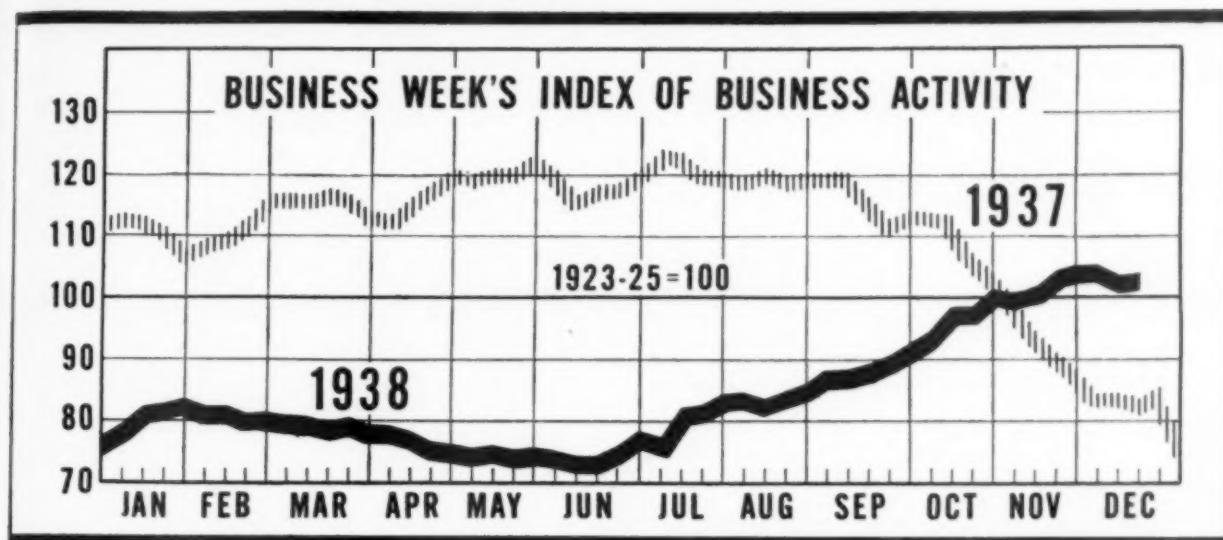
## —And for Johnson

LOUIS JOHNSON, now Assistant Secretary of War and generally accepted as Woodring's successor, when and if the Kansas can be eased out, is looking higher than the cabinet job he is virtually filling now. Johnson expects to lead the Administration's drive for national defense and counts on this to make him an outstanding contender for the nomination to succeed Roosevelt.



Commerce Building

## THE FIGURES OF THE WEEK



	Latest Week	Preceding Week	Month Ago	6 Months Ago	Year Ago
<b>THE INDEX</b> .....	*104.2	103.8	104.6	74.3	83.6
<b>PRODUCTION</b>					
★ Steel Ingots Operations (% of capacity).....	51.7	57.6	61.9	28.0	23.5
★ Automobile Production .....	102,905	100,705	96,735	41,790	\$2,025
Residential Building Contracts (F. W. Dodge, 4-week daily average in thousands).....	\$4,132	\$4,097	\$4,445	\$3,315	\$2,424
★ Engineering Construction Awards (Eng. News-Rec. 4-week daily av. in thousands).....	\$12,163	\$10,570	\$9,436	\$6,759	\$6,698
Electric Power Output (million kilowatt-hours).....	2,333	2,319	2,270	1,991	2,202
Crude Oil (daily average, 1,000 bbls.).....	3,276	3,245	3,256	3,137	3,440
Bituminous Coal (daily average, 1,000 tons).....	1,362	1,436	1,438	854	1,717
<b>TRADE</b>					
★ Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars).....	66	68	68	63	62
★ All Other Carloadings (daily average, 1,000 cars).....	37	40	38	30	41
Check Payments (outside N. Y. City, millions).....	\$4,148	\$4,380	\$4,114	\$3,957	\$4,533
Money in Circulation (Wednesday series, millions).....	\$6,858	\$6,844	\$6,732	\$6,420	\$6,596
Department Store Sales (change from same week of preceding year).....	-2%	-2%	-1%	-15%	...
<b>PRICES</b> (Average for the week)					
Spot Commodity Index (Moody's, Dec. 31, 1931=100).....	140.6	139.8	143.4	136.5	148.9
Iron and Steel Composite (Steel, ton).....	\$36.38	\$36.36	\$36.35	\$36.38	\$38.90
Scrap Steel Composite (Iron Age, ton).....	\$14.92	\$14.92	\$15.00	\$11.33	\$13.58
Copper (electrolytic, Connecticut Valley, lb.).....	11.250¢	11.250¢	11.250¢	9.000¢	10.125¢
Wheat (No. 2, hard winter, Kansas City, bu.).....	\$0.67	\$0.67	\$0.64	\$0.67	\$0.97
Sugar (raw, delivered New York, lb.).....	2.87¢	2.85¢	3.03¢	2.68¢	3.23¢
Cotton (middling, New York, lb.).....	8.71¢	8.63¢	9.14¢	8.22¢	8.24¢
Wool Tops (New York, lb.).....	\$0.820	\$0.813	\$0.843	\$0.786	\$0.868
Rubber (ribbed smoked sheets, New York, lb.).....	16.22¢	16.10¢	15.95¢	12.63¢	15.08¢
<b>FINANCE</b>					
Yield—Corporate Bonds (Standard Statistics, 45 issues) .....	5.90%	5.84%	5.74%	6.72%	5.55%
Yield—U. S. Bonds (average of all issues due or callable after 12 years).....	2.48%	2.48%	2.50%	2.52%	2.68%
Yield—U. S. Treasury 3-to-5-year Notes.....	0.69%	0.65%	0.73%	0.66%	1.28%
Call Loans Renewal Rate, N. Y. Stock Exchange (daily average).....	1.00%	1.00%	1.00%	1.00%	1.00%
Prime Commercial Paper, 4-to-6 months, N. Y. City (prevailing rate).....	% %	% %	% - 1/2 %	% - 1 %	1.00 %
Business Failures (Dun & Bradstreet, number).....	216	221	203	257	222
<b>BANKING</b> (Millions of dollars)					
Demand Deposits Adjusted, reporting member banks.....	16,221	16,114	15,720	15,065	14,675
Total Loans and Investments, reporting member banks.....	21,504	21,450	21,335	20,866	21,668
Commercial and Agricultural Loans, reporting member banks.....	3,872	3,881	3,894	3,958	4,645
Securities Loans, reporting member banks.....	1,426	1,409	1,286	1,244	1,567
U. S. Gov't and Gov't Guaranteed Obligations Held, reporting member banks..	9,776	9,772	9,818	9,483	9,286
Other Securities Held, reporting member banks.....	3,232	3,218	3,194	3,022	2,882
Excess Reserves, all member banks (Wednesday series).....	3,480	3,440	3,262	2,726	1,057
Total Federal Reserve Credit Outstanding (Wednesday series).....	2,600	2,591	2,590	2,598	2,631
<b>STOCK MARKET</b> (Average for the week)					
50 Industrials, Price Index (Standard Statistics).....	126.4	124.3	127.4	99.2	108.3
20 Railroads, Price Index (Standard Statistics).....	30.6	29.6	31.1	21.6	33.1
20 Utilities, Price Index (Standard Statistics).....	62.7	61.8	65.3	55.5	60.9
90 Stocks, Price Index (Standard Statistics).....	101.1	99.3	102.3	80.1	88.8
Volume of Trading, N. Y. Stock Exchange (daily average, 1,000 shares).....	1,182	1,055	1,031	915	1,121

\* Factor in Business Week Index. \* Preliminary, week ended December 17. † Revised. § Data for "Latest Week" on each series on request.

## NEW TRAINS...

This year millions of Americans have rediscovered the pleasure of traveling by train. We have talked with some of them. We know why they are once more enthusiastic about train travel. Again and again we have heard the same phrase repeated — "It's these *new trains!*"

Your first glimpse of a silvery Budd-built streamliner, skimming arrow-like along the rails, is an invitation to travel. But there is a still greater thrill when you step aboard. Roomy, luxurious seats, restful color schemes, perfect air-conditioning and insulation against noise. You are hardly aware of speed until you watch the landscape shoot past the wide windows. And when you reach your destination you will be eager to travel the Budd way again.

Each of the twenty-four Budd-built trains now in service has produced a steady increase in passenger traffic. Wherever the new trains run they are attracting new travelers.

This is a hopeful sign for America's hard-pressed railroads. For the light-weight trains that Budd builds not only add to passenger revenue but *cost less* to operate. Budd design and the Budd SHOTWELD® process make it possible to build with high-tensile stainless steel *throughout* the car structure, and thus achieve true light weight without the slightest sacrifice of strength or safety.

• Originator of ALL STEEL® automobile bodies, Budd has pioneered modern methods in the design and fabrication of many steel products. The Budd developments in stainless steel include railway cars, marine and bridge structures, airplanes, tanks, bus, truck and trailer bodies and equipment for the chemical and rayon industries. \*Reg. U. S. Pat. Off.

**EDWARD G. BUDD MANUFACTURING CO.  
PHILADELPHIA AND DETROIT**



**BUDD** METHODS SAFELY ELIMINATE DEAD-WEIGHT

# BUSINESS WEEK

December 24, 1938

## THE BUSINESS OUTLOOK

**Going through a period of consolidating its gains, business is waiting until after the holidays for important action. Steel continues down, but is apt to rise early in January.**

FOR SEVERAL WEEKS NOW, business has been going through what might be called a waiting period. This has been marked by stagnation in the production index for the first time since June, by inaction in the security markets, and by stability in commodity prices at a new level slightly below that which obtained from July to November.

There is a general desire to postpone important action until after the holidays, when the seasonal peak of retail buying will have been digested and the legislative and financial policy of the Administration for the next year will have been placed before Congress. But there is little fear that the current pause means the peak of the whole recovery movement.

### Period of Consolidation

The weekly production indexes at this time are much under the influence of seasonal adjustments, resulting both from the not definitely determined effects on general industry of the opening of the automobile new model season in November instead of January, and from the varying adjustments made for holiday interruptions.

Particular week-to-week advances or declines are therefore not of great significance, but the failure of the BUSINESS WEEK index to advance over a period of four weeks is notable. The period of consolidation which necessarily follows a five months' forward movement like that from June to November has apparently set in.

### Politics and Business Cycle

The fact that the November elections marked the approximate peak of the 1938 cycle is worthy of comment. One might have expected that the conservative successes scored at that time would have given further impetus to the advancing tide of recovery, instead of which there ensued a reaction in stock and commodity prices and a pause in

orders and productive activity. This would be disappointing were it not for the fact that such a reaction or pause was, in the natural course of things, due or even overdue. The formula of continuous progress has not yet been found.

### More Moderate Program

For the time being, then, the effects of the election trend have been obscured. There is no reason to doubt, however, that they will eventually be felt. Evidence from Washington indicates that the message of the returns has been read in both New Deal and Congressional circles, and that the 1939 program will be formed under more moderate influences than those of recent years. In other words, while no abandonment of policies accepted by the nation since 1933 is to be expected, there will be a slowing down of most kinds of reform and at least some revision and amendment.

### Steel Activity Down

The position of steel is always highly significant for industry as a whole. For the moment, its direction is downward. Five weeks ago operations were at 63% of capacity; currently they are little more than 50%. This decline reflects in part the expected seasonal movement, since December is nearly always a month of declining orders, and is certainly so this year. It reflects in part the fact that, when production was above 60% of capacity, orders were probably only at 50%, so that a good deal of the output was going into inventories. Such a discrepancy calls for a temporary reaction.

### Rise of Building

With these factors in mind, it seems likely that the next two weeks will see steel activity down another five to ten points. From early January on, however, the direction is likely to be upward again. The automobile industry, which has been the bulwark of this autumn's steel movement, will not play the leading rôle, since the automobile companies have now pretty well covered their requirements for the first two months of 1939. The railroads may lend help for the first time in well over a year. There has already been some equipment ordered and there



*Housing took on added stature this week as a business stimulant for 1939 when it became known that the President may ask Congressional authorization of an additional \$500,000,000 to \$800,000,000 for the United States Housing Authority. Nathan Straus (above), head of USHA, has loaned or earmarked for slum-clearance projects most of the original authorization of \$800,000,000. And he has before him additional requests for loans totaling \$500,000,000.*

will be more if, as is possible, a more constructive treatment of the railroad problem develops in Washington. A bigger aid to steel, however, will come from building. The rise of building from its low point of last winter is perhaps the most encouraging development of 1938 and best reason for optimism toward 1939. Private residential building is moving ahead under the impetus of the highly successful Federal Housing Administration mortgage guarantee plan, public residential building is being pushed by the United States Housing Authority, and the public works contracts will be under way in large volume next spring.

#### **Expect 60% Steel Rate**

On the basis of the foregoing factors and others, steel activity in the first half of the next year ought to average somewhere near the peak figures reached this autumn—in other words, at or above 60% of capacity, or twice the rate of the first six months of 1937.

#### **Plan More Advertising**

A sampling of advertising plans, made by the Association of National Advertisers between Dec. 1 and Dec. 15, indicates that industry will intensify its sales efforts next year. The questionnaire was answered by 182 leading national advertisers representing a cross-section of business. It showed that 50% of the companies expect to spend an average of 15% more for advertising in 1939 than they spent in 1938, that 42% plan to spend the same, that only 8% will spend less. Of 152 companies reporting sales forecasts, 84% anticipate sales increases, the average expectation being 13%. Confidence in the immediate future is indicated by the absence of qualifying remarks in returns of the study.

## **Expect Big Winter Sports Season**

**Equipment manufacturers expect to top record sales of past two years. Northern resorts complete plans for chilblain tourists—and hope for snow.**

SUN-KISSED SOUTHERN PLAYGROUNDS have something to think about in the growing popularity of winter sports. The young and the "smart" are going for the chilblain resorts in a large way. Where these groups lead, the moneyed masses follow. Travel executives generally agree that low Fahrenheit and heavy snowfall are all that is needed to make this winter a record-breaker for the Northern recreation centers.

Pre-Christmas demand for ski and skating accessories was considerably ahead of previous years, required heavy reorders by retailers. It brought cheer to makers of sporting goods and sports clothing, to hotels and transportation agencies, to doctors who will take care of the injured, and to numerous durable Scandinavians who have come over to teach us the rudiments of skiing.

U. S. Census Bureau reports measure the trend to skates and skis. Between 1935 and 1937 the manufacturers' value of all sporting goods, not including firearms and ammunition, rose 27.5%, to \$44,460,000. During the same period, ice skate output increased almost 100% and ski output, almost 200%. In the two years ice skate production rose from 528,000 pairs, worth \$1,043,000, to 1,190,000 pairs, worth \$1,942,000. Meantime the value of ski (and snowshoe) production jumped from \$417,000 to

\$1,236,000. Toboggans and sleds were similarly stimulated, rising from \$57,000 to \$178,000.

From the iciced crags of the Yosemite to the snow-laden firs of Maine skiing ranks as the leading winter attraction. Devotees may now subscribe for a New York magazine named, appropriately, *Ski*. CCC gangs have cleared new ski runs on mountain slopes and improved old ones. As a result many mountain hotels will stay open during the cold months.

This winter many national parks in the snow belt will be kept open. The government will try to scrape roads to the gates of such remote reservations as Yellowstone and Glacier National Park, Paradise Lodge, Mt. Rainier National Park, Timberline Lodge, in the Mt. Hood National Forest, and the hotels of Yosemite Park are being heavily promoted.

#### **Railroads Woo Ski Enthusiasts**

Competing railroads are learning from the Union Pacific's success at Sun Valley, Idaho. The Northern Pacific, the Great Northern, and the Milwaukee Road are aiding various ski developments from Whitefish, Mont., west to the Cascade Mts. and the Snoqualmie "ski bowl" near Seattle. The Canadian Pacific and the New York Central expect the best ski season in their history. Canadian National will cooperate with American roads on week-end snow trains to Montreal and the Laurentians. The New Haven and the Boston & Maine also are active.

New England hopes for heavy snows, which would give it a break over Canadian competition. The season started with a bang at the winter sports show and ski carnival at Boston. Attendance averaged around 10,000 for each performance. The Massachusetts development and industrial commission is intensively promoting the state's facilities for the snow birds. Vermont has divided its map into five districts with an office and ski-conscious publicity man in each.

Interest in skating revived when hockey became a big-time sport, was further boosted by the motion picture didoes of dimpled Sonja Henie. Makers of freezing equipment have felt the benefits of indoor rink installations.

No wonder the sun-kissed Southern resorts are inquiring about Iceolite which offers warm weather skating. Iceolite comes in blocks, is made of 16 ingredients including a vegetable oil and a silicate. Buckeye Paint & Varnish Co., Toledo, plans to make and market Iceolite.



*Ski enthusiasts from Manhattan pile out of a New Haven snow train.*



Harris &amp; Ewing

*Representing the three hostile groups that are likely to cause President Roosevelt the most annoyance when the new Congress meets are—left to right—Sen.*

*Burton K. Wheeler, Western Democrat; Sen. Arthur Vandenberg, Republican; and Sen. Millard Tydings, Southern Conservative.*

## Congress Squints at F.D.R.

**Both houses will do as much rebelling against the White House as they think is safe. Most of Roosevelt's advisers urge more boldness.**

**WASHINGTON (Business Week Bureau)**—Congress is itching to throw the White House rubber stamp in the waste basket, this session, but the Democratic majorities—still large in both House and Senate despite the Republican "victory" last November—do not want to throw away the key to continuance in power, and to patronage, along with it.

So the question is just how many White House recommendations Capitol Hill can kick around without upsetting the applecarts of individual House and Senate members. It will be rather a nice question of judgment, in many instances, particularly for the large Southern conservative bloc, and for the Northern and Western Democrats who for one reason or another do not like Roosevelt, or the New Deal, or the particular New Dealers who are closer to the throne than they are.

### Right or Left?

Roosevelt really holds the key to the Congressional situation, but nobody knows what his strategy is going to be. One shrewd former admirer, Gen. Hugh Johnson, predicts that he will turn slightly to the right, sure that the liberals will have nowhere else to go, and that thus he will prevent a split in the party and ensure his own reelection. Johnson of course is sure F.D.R. is going to run again if he thinks he can win.

But there are many signs that this "right turn" will not take place. Everyone close to the President, nearly, wants him to take a bolder course. They want

him to go all the way left, keep on playing to the radical vote, and not worry about the South, which they figure no one can take away from him in an election. This group includes Hopkins, Ickes, Corcoran, and Cohen. With the forcing out of Dan Roper and the welcome resig-

nation of Attorney General Cummings, the group is very much in the saddle. Morgenthau disagrees with them but his opinion is not valued, either politically or economically. And they know he will obey orders.

Capitol Hill is wondering something else. Its collective judgment is that sound political acumen on the President's part would dictate this slight turning to the right which Hugh Johnson predicts. But it is far from sure that this course will be followed. It knows Louis Howe is dead. It believes, rightly or wrongly, that the faithful Louis was the real political brains of the man he so devotedly served.

### The Shifting Balance of Power

#### —In the Senate (96 members)

Congress	Democ- rats	Repub- licans	Farmer- Labor	Pro- gressive	American Labor	Inde- pendent	Va- cant
76th (Convenes Jan. 3, 1939)....	69	23	2	1	0	1	0
75th (3rd Session—1938).....	76	15	2	1	0	1	1
74th (2nd Session—1935).....	69	25	1	1	0	0	0
73rd (1933—1st New Deal).....	60	35	1	0	0	0	0

When the 76th Congress convenes, the Senate will have 13 new members—8 Republicans, 5 Democrats. All the Republicans displaced Democratic incumbents. No Democrats displaced Republicans in the November elections to 35 Senate seats. Of 29 Democrats whose terms expired, 19 were reelected. Three Republicans whose terms expired were reelected.

#### —In the House (435 members)

Congress	Democ- rats	Repub- licans	Farmer- Labor	Pro- gressive	American Labor	Inde- pendent	Va- cant
76th (Convenes Jan. 3, 1939)....	261	169	1	3	1	0	1
75th (3rd Session—1938).....	327	89	5	7	0	0	7
74th (2nd Session—1935).....	322	102	3	7	0	0	1
73rd (1933—1st New Deal).....	510	117	5	0	0	0	3

In the new House there will be 117 new members—32 Democrats, 84 Republicans, 1 American Laborite; 318 representatives were reelected—230 Democrats, 85 Republicans, 1 Farmer-Laborite and 2 Progressives. Seventy Democrats were succeeded by Republicans; no Republicans were succeeded by Democrats. Democrats succeeded by Democrats, 32. Democrats succeeded by American Labor, 1. Five Republicans were succeeded by Republicans. Republicans displaced 4 Farmer-Laborites and 5 Progressives.

It points to the fact that Roosevelt never made a serious political mistake while Louis was alive, and that he has done almost nothing which indicated any great political wisdom since Louis died. Witness the Supreme Court issue, the purge, Hugo Black, etc.

### Forces Opposing President

Whatever Mr. Roosevelt proposes will have to run a most unusual gauntlet in Congress. There will be at least four very hostile groups to study each recommendation and decide what course is best for its purposes. Most important of these are the Southern conservatives. Their intention, very thinly disguised, is to prevent either the renomination of Roosevelt or the nomination of anyone Roosevelt might select. They want to nominate one of their own, or, failing that, someone who agrees with them about economics, Southern problems in general, and the Negro question in particular. This group is stronger than it was in the last session, has gained several recruits from Southern Senators who were 100% New Deal last summer, while all of them are much emboldened as a result of the purge failure.

Then there is the group of Northern and Western Democrats who are not conservative, by any means, but for various reasons do not like the New Deal or Roosevelt. This group includes Wheeler of Montana, Burke of Nebraska, McCarran of Nevada. Some of its hopes for the future coincide with those of the Southern conservatives. Some differ.

Third are the regular Republicans. They want to devastate the entire New Deal and leave not one stone standing on another. This group is probably the least important of the four. Finally there are the progressive Republicans, who hope to elect a Republican in 1940 who will, as they see it, carry on the good and discard the evil of the New Deal.

This group differs with the conservative Southerners on economic questions, joins the other three groups only in hoping to destroy the popularity of Roosevelt.

On the other side are only the 100% New Dealers in Congress, numerically much weakened by the election. Many of them had been elected and reelected only because of Roosevelt's strength. Their own political salvation seemed to them to require undeviating obedience to White House commands. Besides its loss in numbers, the members of this group are no longer as dependable for White House projects, for the simple reason that they are no longer sure that being rubber stamps is the best thing for their individual political ambitions. The instances of hundred per centers who passed out of public life in the primaries and elections this year are too glaring not to give them some pause about this. Hence the probability is that many of them will weigh each issue as it arises from the standpoint of whether it will be good for them individually.

### Against More Executive Power

Every group except the hundred per centers will be strong against any move which would put more power in the hands of the White House. Most individual Democrats will be trying to decide which is the most likely bandwagon to roll down Pennsylvania Avenue at the next inauguration, with the obvious selfish purpose of having a seat on that bandwagon, and getting the perquisites which usually go with such a preferred position. Naturally this influence will rarely help the White House objectives.

If—however—Roosevelt really should turn to the right, as Johnson predicts, the picture might easily change. Even the Southern conservatives, little as they like him, realize his popularity, might decide to continue cashing in on it. Maybe somebody will take Louis Howe's place!

### Parliamentary Arithmetic

THE "RUBBER STAMP" which showed signs of wear in the last Congress will be of practically no use in the new Congress. In the House, Democrats (old-fashioned and New Dealers) have only 44 votes over a simple majority (218) needed to pass legislation or to blast controversial bills out of a balky committee by petition and bring them up for consideration on the floor. Democrats are actually short by 28 votes of commanding the two-third majority (290) for suspension of the rules when Administration measures are stymied by regular procedure. As a consequence Rep. Rayburn's job as majority leader will be much tougher in the next Congress than the last. Not discounting the fact that increased Republican representation in the House includes numerous neophytes who would outdo the New Deal, Rep. Jos. W. Martin, Jr. (who will succeed Rep. Bertrand Snell, retired, as minority leader) will be able to throw many a monkey-wrench into the Administration's steam-roller machinery, and there will be many conservative Democrats to help him.

In the Senate the Democrats will have 20 instead of 27 votes (28 before Sen. Copeland's death) over a majority (49). More than 20 Democrats combined with Republicans on several occasions in the last Congress to thwart the best-laid plans of Corcoran and Cohen—and it was the revolters who got reelected. It will be 1942, however, before the Republicans can possibly capture a majority. It is only an arithmetical possibility in 1940.

Increased Republican strength will figure rather importantly in committees where most of the work of Congress is done. Each of the eight new Senators will probably get a berth on two or three major committees. In the House the Republican influx will be spread thinner. Their numerical representation on all committees will, of course, be increased, but no Congressman, as a rule, is assigned to more than one major committee, and Congressmen on a major committee are rarely given another assignment.

All in all, the steamroller will have a decidedly harder job in the coming session, despite the fuel it will receive in the form of White House patronage. The opposition to the White House will not be easily flattened out.



*Three of the thirteen newly-elected U. S. Senators pay their respects to the wildest politician of them all—Vice-President Garner. Left to right: D. Worth Clark, Idaho; James M. Mead, New York; Vice-President Garner; and Sheridan Downey, California.*

## Air Defense—Europe and U. S.

New information on foreign air power provides data for Congress. American experts find Germany ahead, but see no need yet for rushing production here.

**THE AIR STRENGTH** of the Rome-Berlin military combine is now probably greater than the combined air forces of the British, French, and Soviets (see table).

This is the finding of S. Paul Johnston, editor of *Aviation* (associated with BUSINESS WEEK in the McGraw-Hill Publishing Co.), who has just completed a tour of Europe's great airplane factories.

Germany holds the balance of air power in Europe, and is now producing between 400 and 500 planes a month at well below potential capacity. It has a group of the largest and best equipped aircraft manufacturing plants in the world employing from 150,000 to 200,000 workers. A single gigantic plant at Oranienburg (near Berlin) is capable of turning out 40 planes a week, if the necessity arises.

In Italy, the production picture at the moment looks better than in France or England and compares favorably with the German situation, although not on such a grand scale. Production of both planes and engines seems to have settled down to a steady pace large enough to meet the rather heavy requirements of the Italian military services. Actual output of planes at the present time is in the neighborhood of 200 a month, but this is considerably below the available capacity.

### British Increase Output

In contrast, the British, even after three years of intensive effort to develop the aircraft industry, are just now getting into mass production on an important scale. It is probable that during 1938 not more than 1,500 planes have been turned out, but the production rate by the end of November had been boosted to 65 to 70 units a week, or nearly 3,500 machines a year. By the end of 1939, it is expected to reach 5,000. Between 1934 and 1938, the British boosted the Air Ministry appropriation from \$100,000,000 to \$600,000,000.

The poorest showing in Europe is being made by the French. As recently as November, France was not building more than 75 airplanes a month (compared with 400-500 in Germany). The French themselves blame the breakdown on lack of government funds, incessant labor troubles, and the disorganization which has followed nationalization of the industry.

The British have all along had little confidence in the strength of France as an ally, largely because of the unsettled do-

mestic conditions in the country, but also because of the inability of the French to compete effectively in the air with potential enemies. The gloomy appraisal was substantiated by Henri Bouché, one of the outstanding aeronautic authorities in France, in a statement recently in which he boldly raised the question as to whether it is economically possible for France to compete with an aerial armament program on the scale set by Germany.

### Reich Quality Set Above Soviet

No one outside of Russia knows much more than American aviation leaders about the Soviet Union's air strength. Estimates of the number of planes in the Russian air force have not been reduced downward, but both quality and production rate are now believed to be below the German level. However, Soviet aircraft plants are mostly far from the Moscow district and foreigners are not allowed near them, so the air strength of the Russians constitutes little more than a guess by those people who have sold equipment to Russia, or have seen Russian planes at Moscow, or have talked with Soviet air authorities—a notoriously close-mouthed crowd.

The American aircraft industry makes a comparatively poor showing when lined up against Europe's accomplishments (see table), but aviation experts hasten to point out that this is largely because the United States has not yet been in serious danger of attack, as has been the case in Europe. The quality of our planes is as good as the best. The rate of pro-



*Building "morale" (see box below) of future air fighters, the French government brought schoolboys from all over the country to the recent Aeronautical Exposition in Paris.*

duction is comparatively low because we have avoided useless output at a time when technical improvements make planes obsolete in a short time. Also, with no immediate threat of attack from neighbors with big air forces, there has been no reason for building an air force such as Britain, for instance, which feels it needs it as a protection from Germany or Italy.

Aviation authorities, nevertheless, declare now that we are well below minimum strength for national safety, and argue for a well-planned building program which will fill out our deficiencies and keep our air fleet up to date rather than call for the kind of mass production demanded in Europe.

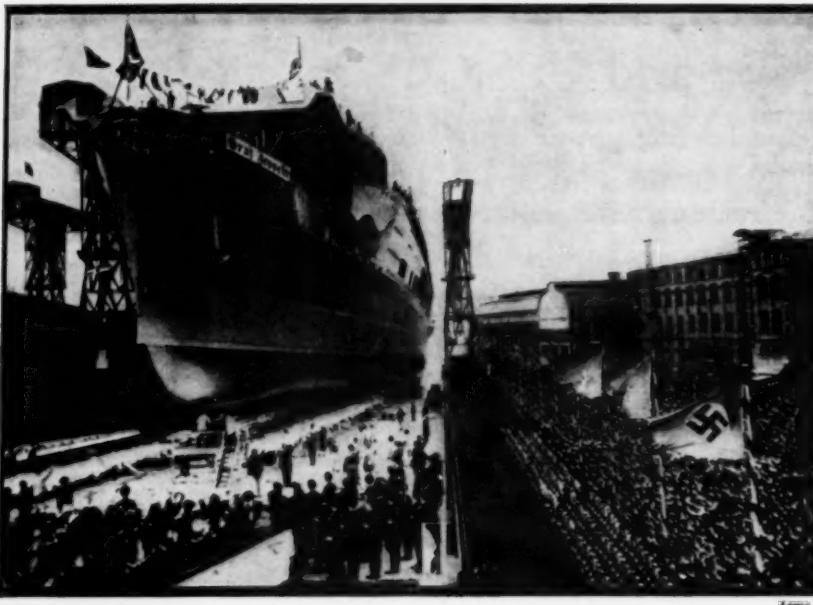
Congress, when it meets 10 days from now, will take up immediately the problems of a defense program which unquestionably will call for huge new expenditures. Europe's vast air forces will be held up as threats to us and examples we

### Air Ratings of the Major Powers

TAKING 10 as a base, here's how the editor of *Aviation* magazine, S. Paul Johnston, after a post-Munich tour of Europe, lines up the air forces of the major powers, judged on the six components which every aviation expert considers essential to real air strength.

	Germany	Soviet Union*	Italy	Britain	France	United States
Airplanes (including reserves)	10	10	5	3	2	2
Quality	10	5	8	8	4	10
Production Rate	10	7	4	4	1	2
Production Capacity	10	8	6	6	3	4
Personnel	10	10	6	3	3	2
Morale	10	6	9	6	2	6
Total	60	46	38	30	15	26
Rating	10	7½	6½	5	2½	4½

\* Soviet ratings are a composite of expert opinion of those who have been in the Soviet Union, or have had direct dealings with Moscow, not Mr. Johnston's personal appraisal.



*Germany, Europe's most airminded nation, gets its first airplane carrier. A huge crowd, including Chancellor Hitler, turned out Dec. 15 to give the Nazi salute as the new Graf Zeppelin slid down the ways at Kiel.*

should copy. But American experts, though they will advise some increases in our air power, will demand first the kind of long-range program which has given Germany the leadership in Europe and probably the most efficient airplane plant in the world. This, they insist after studying our peculiar defense problem,

will couple with a rational expansion of our highly efficient basic aircraft and manufacturing industry, planned to handle any emergency demand which may arise. They contend that this is the fair way to look at the problem from the point of view of both the industry and the taxpayer.

## Auto Production Ebbs a Bit

**Normal December and January breathing spell begins, but it's smaller than in past years. Sales curve keeps rising, even in December.**

**DETROIT (Business Week Bureau)**—First signs of minor seasonal slackening in the fast-rising automotive production curve made their appearance during the past week. Since October, output has been rising steadily, week by week, passing 1937 production rates early in November.

Indications so far are that the normal December and January breathing spell will not permit as much relaxing in production activity as in past years. While dealer demand is slackening off at some plants, the big three are still rolling merrily along, working on a backlog of dealer orders.

That the improvement so far, at least, is not a production flash-in-the-pan seems to be indicated by the simultaneously rising sales-curve. November retail deliveries in the United States should be at least 50% ahead of October when the final count is in, while passing November, 1937, by about 5%. Furthermore, scattered reports on retail business done

during the first two weeks or 10 days of December show an improvement over November, contrary to the normal seasonal trend. The facts of good weather, and early introduction of new models by the usually late Ford Motor Co., are only partially accountable for this development. As a consequence, automotive executives feel justified in some optimism.

So far, used car sales have been disappointing, however. They have failed to pick up along with new car deliveries and are currently running behind last year, in spite of the fact that the average used car price index has been dropping steadily since last spring. With the possibility of used cars damming up new car sales once more, the National Automobile Dealers Association has petitioned factories for the adoption of a steady program of used car advertising and merchandising assistance.

Commercial vehicle sales also have

failed to keep pace with new car business, dropping behind the total for the previous year again in November.

A blow to the hopes of certain dealer groups who have been fighting for legislative authorization of price-fixing on used cars was the recent court ruling in Pennsylvania that fixing of trade-in allowances is contrary to that commonwealth's and the federal Constitutions.

### Tapering Off Hits Workers

While labor troubles were ineffective in preventing November automotive production from exceeding the total of any month since August, 1937, sporadic labor troubles continue to afflict the industry. Key to present difficulties in several plants is the fact that thousands of workers who were laid off in the fall of 1937, and not rehired during 1938, will lose their seniority rating this month. Attempts to revive the 30-hour week argument as a means of getting some of these workers back on the job at least temporarily seem to have failed. Although a number of plants have this week and last curtailed production to four days a week, seasonal tapering off has made the rehiring of materially additional numbers unnecessary.

Torn between a desire to get these workers back on the job and the necessity of stabilizing the United Automobile Workers, Homer Martin has had a pretty headache. On Dec. 10 he issued an ultimatum to all International officers, executive board members, and officers of locals on the question of unauthorized strikes. Shortly prior to that time he had assigned Richard Frankensteen and Wyndham Mortimer of the opposition to activities away from Detroit. Both are still in the city, however. Last week the U.A.W. organization in Detroit's Works Progress Administration arose to plague him with a threat of a general strike in which automotive locals announced they would join.

### Willys-Overland Election

Meanwhile clerical workers at Toledo's Willys-Overland plant turned thumbs down on the U.A.W., while at the same election, conducted by the National Labor Relations Board, maintenance mechanics and machinists voted 96% to be represented by the Mechanics Educational Society of America (independent). Since these groups, as well as the American Federation of Labor die-sinkers, represent only a minority of all Willys workers, recognition of their representation designation, in effect, means the setting aside of the NLRB majority rule edict.

Other developments in the industry during the past week or so include: Appointing of nine assistant regional managers on new cars by Chevrolet as part of its arming for its big 1939 battle with Ford for leadership. . . . Appointment by Chevrolet also of a manager



*International Half-Ton to One-Ton Light Delivery Units come in 3 wheelbase lengths to fit all types of retail delivery. Ask your International dealer for full information on any International from  $\frac{1}{2}$ -ton trucks to heavy-duty six-wheelers.*

**N**OW, at Christmas Time, the stores of America again play Santa Claus to the nation. Their vital, friendly influence is felt in every community. Crowds of holiday shoppers fill their aisles, and "serve the customer" is the watchword of the hour.

It is estimated that the stores of America deliver two billion packages a year to the homes of America. A large percentage of these packages are crowded into the hectic hours of the holiday season. And what a job the stores do seeing that this tremendous job is done right!

In the service end of Christmas selling, International Trucks play the role of Santa's sleigh to perfection just as they give star performance the year 'round for merchants in every merchandising field. Retail establishments of every kind rely on these famous trucks for unfailing delivery service, and they get it. Powerful,

flexible and fast, these Light Delivery Units travel their routes *on schedule* at lowest cost per parcel and per mile.

Thirty-three years of truck-building are concentrated in these Light Delivery Internationals. In them the stamina of heavy-duty trucks is combined with the streamlined appearance of luxury motor cars. As a result, many of the biggest retail operators in the country make International Trucks their rolling store fronts, realizing that added profit lies in delivering prestige with every package.

Take stock of your hauling problems now, and in 1939 let Internationals add the prestige of their looks and the economy of their performance to the profits of your business. . . . *Merry Christmas!*

**INTERNATIONAL HARVESTER COMPANY**  
(INCORPORATED)  
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# INTERNATIONAL TRUCKS

for its new Territorial Security plan for dealers. . . . Announcement by two groups, Bramson Publishing Co. and Edward E. Rothman, Inc. (former vice-president of Pontiac's McManus John and Adams agency) of new trade publications to be devoted to selling problems on used cars and trucks. . . . First showing of new Chrysler "fluid flywheel" coupling, consisting of two turbine-like rotors, one attached to the crankshaft, one to the transmission; the coupling is filled with oil, so that the rotation of one produces a rotation of the other. . . . Appointment of W. J. O'Neil, manufacturing expert, as president of Dodge Brothers. . . . Appointment of a "regional" distributor by Graham for its prize Far West and Coast

territory, as a means of wholesale financing of its cars. . . . Ford production still lagging behind retail deliveries, with production up to 4,400 per day. . . . Hudson starts a program of dealer-distributor-factory councils on sales and merchandising problems with a two-day session in Detroit. . . . Lower-priced models such as the smaller Olds and Pontiac sixes, Ford 60, and smaller Chevrolet, are not keeping up with Deluxe sales, indicating a weakness still in the cars-for-transportation-mainly market; this is consistent with the used car sales hesitancy. . . . Plymouth announces 1939 commercial car prices, beginning at \$545 for the chassis with cab, and starts shipments of such models to dealers.

The advisory council considered this aspect of the problem and laid down a conservative rule: in no case should the sum expended for benefit payments exceed the original estimate of 10% to 12% of total payrolls. Yet, the council recommended that payment of pensions be advanced to Jan. 1, 1940, instead of 1942; that coverage be widened to include aged widows, dependents and orphans; and that the monthly benefits in early years be increased.

#### **The How of It Left to Congress**

Unfortunately, the council did not provide a blueprint of how Congress might accomplish these seemingly conflicting ends—of wider coverage without increased cost. No doubt Congressmen will take a generous delight in widening and increasing benefits, but they may have a hard time keeping this extension of the old age pension program within actuarial bounds.

On one point, however, the council was specific as well as emphatic. It recommended that the old age reserve account, which would reach the astronomical total of \$46,900,000,000 by 1980 (*BW-May 29 '37, p24*), should be abandoned, and that the so-called pay-as-you-go system should be substituted. Under this proposal, the costs of pensions each year would be met as nearly as possible out of current receipts—approximately one-third from employers, one-third from employees (based on payrolls), and one-third from the government out of general taxes.

The council hopes in that way to reduce the payroll tax burden by imposing on society in general part of the cost of

## **Age Steals Up on Social Security**

**And Congress, confronted with a rising population of 65 or over, is asked to find funds to broaden pension list without boosting tax ante.**

**AGE IS CREEPING UP** on America. That grim fact—full of social and economic implications—is destined to confront (and possibly confuse) Congress early this year when it buckles down to the highly serious and urgent business of revising the Social Security Act.

It will be no easy matter for the Representatives and the Senators to get together on a formula of change. That was clearly indicated this week when the specially appointed Advisory Council on Social Security issued its final report to the Senate on how the law should be altered. Here was a comparatively small and compact body of 25 members, representing labor, employers and the public; here was a group of men and women chosen by a Senate committee for their understanding of social and economic problems.

Yet these 25 men and women could not reach unanimous accord on general Social Security principles. They differed—not sharply, but sufficiently to record their exceptions in footnotes to the 54-page report—on such fundamental questions as methods of financing and scope of coverage. What then will 531 politically-minded Congressmen do when they get down to working out details? Especially when fresh in their memories is the last election with its abundance of "830-Every-Thursday" and similar old age pension schemes.

#### **Number of Aged Expands**

Any revision of the Social Security Act of 1935 will have to take into account the rise in the country's age-level. In 1900, only 3,080,000 persons or 4.1% of the population were 65 years or over; in 1930, the number had increased to 6,634,000 or 5.4% of the inhabitants.

This year, the total is 8,180,000 or 6.3%. And 40 years hence, 22,000,000 or 14% to 16% of the population will be eligible to receive old age pensions.

Those statistics suggest the specific magnitude of the problem confronting Congress; they imply that a larger and larger share of the country's annual production each year will be taken from the workers of that period—the actual producers—and delivered to the retired older members of the community in the form of old age benefits.

#### **Widowhood—Old and New**

In 1776, ADAM SMITH wrote in his famous economic tract "An Inquiry into the Nature and Causes of the Wealth of Nations":

"Those who live to old age [in North America] . . . frequently see from 50 to 100, and sometimes many more, descendants from their own body. Labour is there so well rewarded that a numerous family of children, instead of being a burden, is a source of opulence and prosperity to the parents. The labour of each child, before it can leave their house, is computed to be worth a hundred pounds clear gains to them. A young widow with four or five children, who, among the middling or inferior ranks of people in Europe, would have so little chance for a second husband, is there frequently courted as a sort of fortune."

P.S. The Advisory Council's epilogue on widowhood reads: "It would also be necessary to provide that . . . widows' benefits terminate on remarriage."

pensions. Under the schedule in the Social Security Act, payroll taxes would amount to 3% each on employer and employee in 1960. Now it is recommended that Congress reconsider this gradual rise in taxation by 1942, but that the scheduled increase in the rate from 1% to 1½% in 1940 should not be changed. (On this point there was not unanimity.) And to provide against contingencies, a reserve fund—much smaller than in the present law—is called for. Another basic financial recommendation is that taxes collected for old age pensions should be covered directly into the contingency reserve fund and not commingled with general U. S. Treasury revenues. The council enters its legal judgment that such a provision would be constitutional.

#### **Proposes Coverage Increase**

Of great interest to the public at large, and to Congressmen, are the proposals to expand the pension system. The current act calls for coverage of 42,000,000 workers, but the council would augment this by 14,800,000 as follows: 2,000,000 employees in non-profit institutions, such as religious, charitable, and educational organizations; 400,000 seamen; 400,000 employees of banks and other government and semi-government agencies; and—if feasible by 1940—6,000,000 farm workers and 6,000,000 domestics. In addition, the council considered the possibility of covering the self-employed, such as lawyers, writers, mechanics, but deferred that for further study.

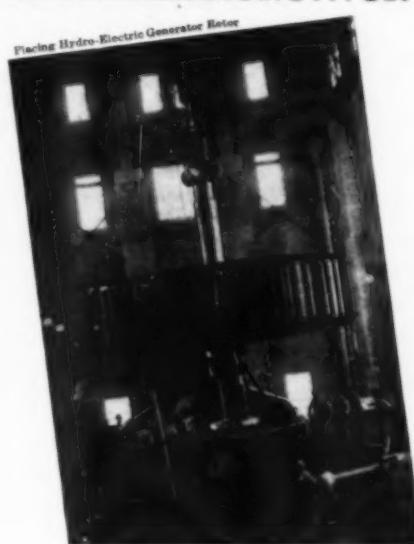
Throughout its report, the council took the social approach, rather than apply the strict insurance principles. The philosophy written between every line of the document was that annuitants should be paid partly according to their subsistence requirements, and not solely according to the sums paid into the fund for them. Thus, the understandable fiat is put forward that unmarried pensioners should receive less than married pensioners.

#### **Broad Framework Set Up**

In that way, the council hoped to offset in part the cost of wider coverage. But, the council failed to submit an actual estimate of how much this additional coverage would cost the Social Security system, and did not state what it regarded as an equitable minimum for monthly payments in early years; consequently it is not possible to make a check on the financial feasibility of its recommendations.

About all that can be said, therefore, is that the council came out for a much wider scheme of social security than the 1935 act originally contemplated; that its program establishes a philosophical framework for social insurance for the aged; but leaves to Congress the job of working out the details of how, how much, and when.

## **INSTALLATIONS...OR CONCRETE MIXERS**



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## Shipbuilding on Coast

**Government to start a big job. Seattle business men plan construction company.**

THE PACIFIC COAST'S 20-year hunger for ship construction to put idle yards to work (*BW—Dec 38, p19*) apparently is about to be satisfied, in a small measure at least.

Keel-layings on two freighters at the San Francisco Bay shipyards of the Moore Dry Dock Co., expected soon as a part of the Maritime Commission national shipbuilding program, will initiate the first large commercial ship job in Coast yards since the close of the World War.

As the Moore contracts were about to

be signed, California's Congressional delegation petitioned the President to provide in the next federal budget for purchase or construction of three shipyards on the Pacific Coast.

Meanwhile, some of the old fire and drive that pushed Seattle to the front as a shipbuilding base back in war days is shown in launching of a campaign by 300 business men of the city to raise \$750,000 for the formation of a Puget Sound Shipbuilding Co. The idea behind the move is that once the shipbuilding enterprise becomes a reality in Seattle the city will be prepared to do its part in building up the merchant marine.

Authorized capital will be 10,000 shares of stock, par value \$100 each. It is estimated that a minimum of \$750,000 will be needed to get the business under way, and of this amount \$360,000 will be used

for the shipyard and the balance for operating capital. A preliminary fund of \$15,000 is being sought to pay for estimates, preparation of bids, and organization expenses.

Co-operation of labor in the enterprise has been promised by the Seattle Metal Trades Council which has indicated that the unions would enter into an agreement for two, three, or four years, based on present wage and working conditions.

## Boost Alaska Highway

**Premier Pattullo of British Columbia will visit Roosevelt to push the plan.**

EVEN THE PROJECT'S most hostile critics were ready to admit this week that the building of the Alaska Highway, from Washington State through British Columbia and the Yukon, was several steps nearer reality (*BW—Apr 30 '38, p42*).

T. D. Pattullo, premier of British Columbia, who has done most of the negotiating with President Roosevelt and other United States government executives, announced in his legislature that he planned to go east in January to further the enterprise. He obtained a \$25,000 fund from the legislature to finance preliminary preparations for the road, but declared that actual building of the 2,256-mile artery to the Land of the Midnight Sun would be paid for by the United States.

Actually, nearly half the distance to be covered by the Alaska Highway has been completed, although much of that portion will require widening and other improvement if it is to serve the purpose for which it is designed. About 1,183 miles of road remain to be built—520 miles from Hazelton to the Yukon, 480 from the Yukon to the Alaska boundary, and 183 from the Alaska border to Fairbanks. Cost of the project is variously estimated at \$13,900,000 to \$25,000,000.

### Road Has Military Significance

While the road is expected to swell tourist trade in the Pacific Northwest, and open up undeveloped territory in Alaska, the Yukon, and northern British Columbia, its military importance is of primary interest to the United States government.

Furthering the movement for early action on the road, Congressman Warren G. Magnuson, chairman of the U. S. Alaska Highway Commission, was in Vancouver recently asserting that Congress is ready to go ahead with the scheme as soon as Canada approved.

"Congress meets Jan. 3 and I want to go down there and tell them that I have a reasonable plan for the road," Magnuson said. He told Canadians what they had already been told by Pattullo—that the scheme had the warm support of President Roosevelt.



In "sour" natural gas fields, it is necessary to remove hydrogen sulfide from the gas before it can be sold. Koppers has led in the development of liquid purification systems to remove and recover sulfur as a profitable by-product; often the recovered sulfur pays for the plant.

Sometimes, however, the amount of gas is so small, and the sulfur content so low, that the economy features of the liquid system cannot be properly realized. For these cases, also, Koppers has a ready answer. By installing a battery of Koppers Oxide boxes (illustrated), one operator found an easy, economical solution to his purification difficulties. Perhaps Koppers can help you solve some similar problem, through some of the other Koppers products.

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*BUSINESS WEEK REPORTS TO  
EXECUTIVES ON—*

# The Background of the “Anti-Monopoly” Investigation

TNEC is the newest addition to alphabetist government in the United States. It means the Temporary National Economic Committee. In the long run, it may mean more to American business than NRA ever did. Its first job is to investigate business concentration, industrial pricing policies, existing laws affecting business. Its second job is to recommend to Congress new laws that may affect the whole structure of business. The first job is now under way and making headlines. This report, timed for the Christmas break in the committee's hearings, goes back of the headlines to tell where the idea of a probe began, how the committee is made up, what its powers are, what kind of an economic picture of America it started off with, where it stands historically in the "conflict between existing law and existing economic fact." The report is addressed to every executive who realizes the importance of knowing what TNEC means to him. The accompanying charts are a very few of many drawn for the committee by government economists.



*Number 14 of a series of special reports on current business opportunities, problems, and trends of outstanding significance. Made for executives by the editorial staff of *Business Week*, McGraw-Hill Publishing Co., 330 West 42nd Street, New York, N. Y. Covered under the general copyright on the December 24, 1938, issue.*

**A**LTHOUGH the Temporary National Economic Committee has not outlined its full agenda, there is reason to believe that it will make history. The demands of the joint resolution that created it cannot be fulfilled in a few brief hearings. While it would be futile to attempt a specific forecast, one has only to read the terms of reference and the preliminary statements to guess that these hearings will be protracted, that in their course many subjects not now foreseen will become front-page headlines, that time and political tides will sway the course of the proceedings in directions not now anticipated, and that out of them will come policies, legislation, and administration that will profoundly affect the future of business.

Since the committee has barely convened, and consequently has had little opportunity to develop its objectives, it is worthwhile to go back into its origins for suggestions as to its character. Just a year ago, when the country was becoming aware that it faced not a mild recession, but a severe depression, there was a general endeavor to search for the cause and even to assign blame. At the year-end, Secretary Ickes made a powerful speech on the subject of the concentration of economic power, and at almost the same time Robert H. Jackson, then Assistant Attorney General in charge of anti-trust enforcement, denounced "monopolies" and monopolistic practices as responsible for the disaster. At the opening of Congress, Attorney General Cummings in his annual report to Congress urged an investigation to revise the anti-trust laws. The proposal was opposed as untimely both by Congressmen and Senators, among them O'Mahoney and Borah. In his annual message, the President adverted to, but did not greatly stress the subject of the "concentration of economic control"; but in his press conference of Jan. 4, he discussed briefly a scheme for planned production that somewhat resembled the cartel systems adopted abroad.

At that point the issue was vaguely drawn—to oversimplify it, Sherman anti-trust laws vs. a new NRA. Mean-

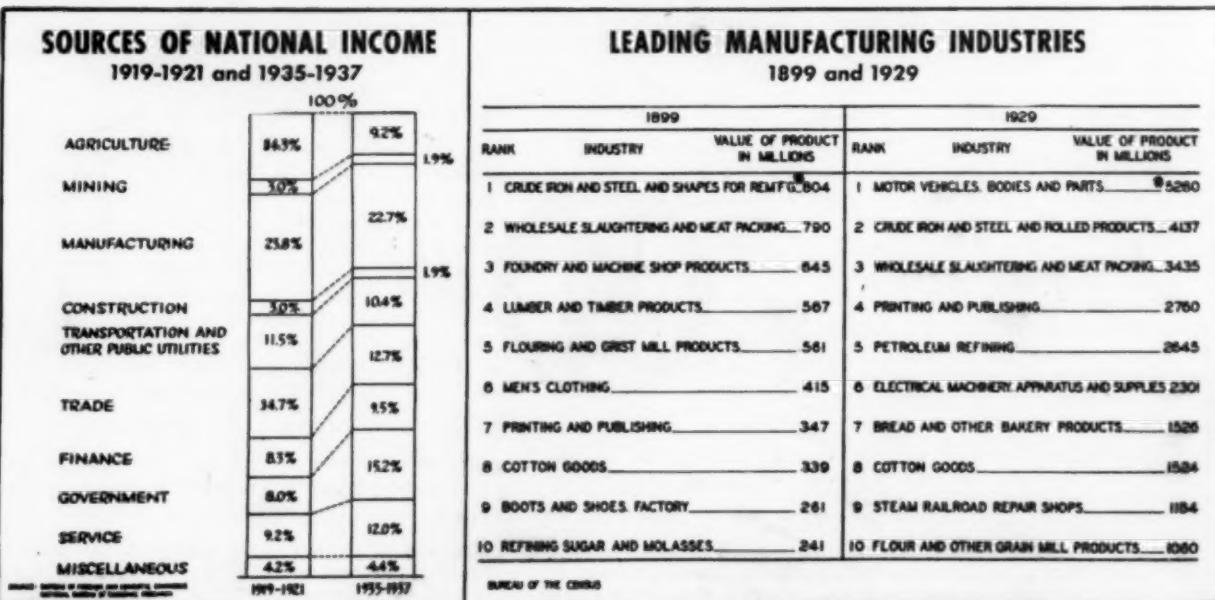
while, Senators Borah and O'Mahoney were sponsoring a federal licensing bill that represented a third approach to the same question. There was, of course, opposition to all three suggestions. By the end of January, it was clear that no immediate reconciliation of these views was imminent. Meanwhile, Mr. Jackson had been appointed Solicitor General, and Thurman Arnold had succeeded him as Assistant Attorney General in charge of anti-trust activities.

On Apr. 29, the President sent to Congress a special message on the concentration of economic power, emphasizing the theme of the disappearance of price competition and the inadequacy of the existing anti-trust laws, and recommending amendment of the patent laws and the creation of a Bureau of Industrial Economics. This message was promptly followed by the introduction of a Joint Resolution to create a "temporary national economic committee." This was passed and signed June 16.

**T**HE committee's membership consisted of Senators O'Mahoney (chairman), Borah, and King; Representatives Sumners, Reece, and Eicher (since resigned) and the following departmental representatives: Dr. Lubin (Labor), Arnold (Justice), Patterson (Commerce), Olyphant (Treasury), Frank (SEC), and Henderson (executive secretary of the committee). Mr. Henderson had previously been economist of WPA and earlier director of research and planning, NRA. Of the six Congressional members only one (Sen. Borah) was a Republican, and only one, Rep. Reece (Tenn.), was from east of the Mississippi.

The Joint Resolution says, in Sec. 2, that it shall be the duty of the committee:

(a) To make a full and complete study and investigation with respect to the matters referred to in the President's message of April 29, 1938, on monopoly and the concentration of economic power in and financial control over production and distribution of goods and services and to hear and recite evidence thereon,



**Change:** TNEC members studied this record of changes in the industrial origin of the national income since the World War; in the relative importance of industries as measured by the value of their products in 1899 and 1929.

with a view to determining, but without limitation, (1) the causes of such concentration and control and their effect upon competition; (2) the effect of the existing price system and the price policies of industry upon the general level of trade, upon employment, upon long term profits and upon consumption; and (3) the effect of existing tax, patent and other government policies upon competition, price levels, unemployment, profits and consumption; and shall investigate the subject of governmental adjustment of the purchasing power of the dollar so as to attain 1926 commodity price levels; and

(b) To make recommendation to Congress with respect to legislation upon the foregoing subjects, including the improvement of anti-trust policy and procedure and the establishment of national standards for corporations engaged in commerce among the states and with foreign nations.

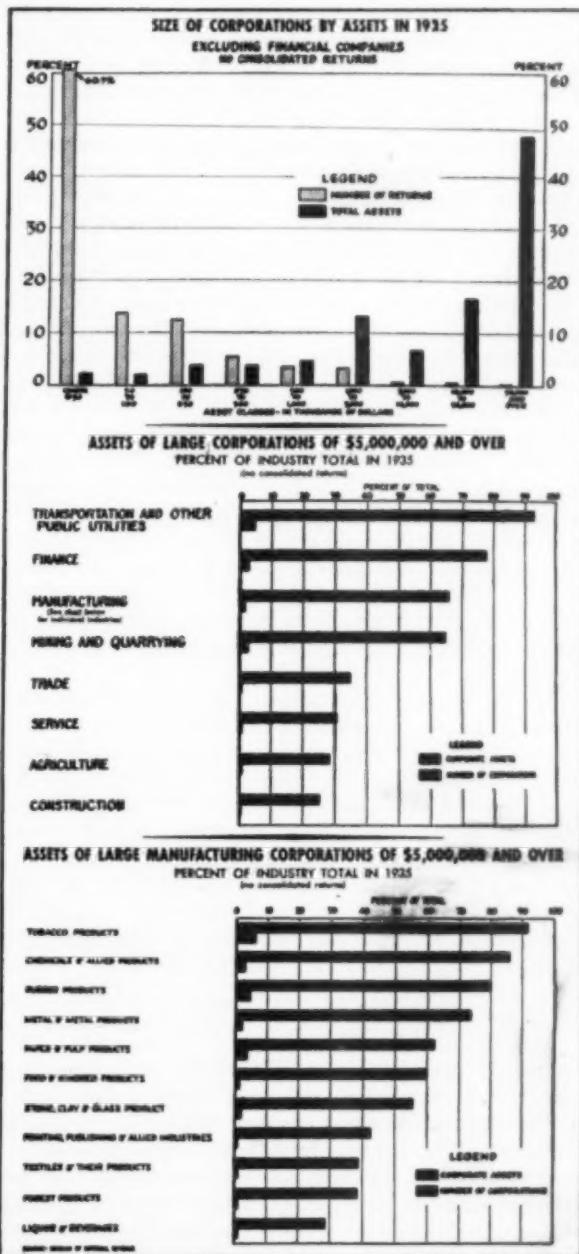
Immediately the resolution became effective, the members were appointed and began their studies, enlisting the aid of numerous government agencies. When the initial session was opened on Dec. 1, the committee offered three preliminary statements intended to (a) describe the economy and (b) expound certain theses as found in or applicable to that economy.

**T**HE survey was a sort of symposium by Dr. Isador Lubin, Commissioner of Labor Statistics; Dr. Willard Thorp, now of Dun & Bradstreet, sometime chairman of the Advisory Council of NRA, director of the Bureau of Foreign and Domestic Commerce, and professor of economics at Amherst College; and Leon Henderson, executive secretary of the committee, formerly consulting economist of WPA and director of the Research and Planning Division of NRA.

Dr. Lubin sketched a picture of the American economy in terms of population and national income. Certain highlights stand out in his picture. The population continues to grow, although at a slower rate than formerly. The national income, which averaged \$69,000,000,000 a year between 1920 and 1929, has averaged only \$50,000,000,-000 between 1930 and 1938, and is divisible among a substantially larger population. The average per capita income between 1920 and 1929 was \$606; between 1930 and 1938 it averaged \$397. This shrinkage of income was shared by all groups of the population. In 1929, 17,000,000 persons were employed in the manufacturing, mining, construction, and public utility industries; in 1938, these same industries employed but 12,800,000 persons. But the number in trade, finance, services, and government—13,000,000 in 1929—is virtually unchanged, being 12,500,000 in 1938.

Approximately 600,000 persons, now, are added to the employable population each year; to find employment for them there is the continuous need of creating new industries or expanding old industries. The possibility of expanding the home market is almost incalculable. About half the families in the United States have incomes of less than \$1,250 a year; if the incomes of these families were increased by \$2.25 a day the additional amount would tax the producing capacity of American industry.

Following this computation of population and income, Dr. Thorp offered what may be called an analytical survey of the structure of American enterprise. This structure is itself complicated, he pointed out, and in process of continuous change. Some industries are concentrated, some are dispersed; actual monopoly is rare. New enterprises are continuously being formed but the mortality rate is high. In a sample city, it appears that only half the enterprises started survive for three years. The typical form of enter-



**Concentration:** In their "prologue" to the TNEC hearings, government economists stressed growing concentration of assets as a feature of American industry. Here are three of the charts that they used to illustrate the domination of "big business."

prise is the corporation, but the fraction of the total business in any given field performed by corporations varies from 7% in agriculture to 100% in communications. The corporate form has a tendency toward concentration, although there are great numbers of small enterprises. Fifty per cent of the employers of America are in the group having three employees or fewer; but 50% of the employees are employed in concerns with 250 or more employees. About 1% of the employers employ 50% of the employees. Evidence of concentration may also be demonstrated from

assets: in 1935, more than half of the 500,000-odd corporations of the country had assets of less than \$50,000; but 780 corporations had assets of \$50,000,000 or over. That is, among corporations, 0.2% by number held 52% of all corporate assets.

The process of concentration seems to be continuous, largely by merger and consolidation. The Sherman Act itself (in the opinion of Dr. Thorp) is an active force inducing such concentrations. (Mr. Arnold took exception to this statement.) Among the forces making for such concentration are the problems arising out of competition. The character of these problems is continuously changing under such influences as consumer preference, technical innovations, and such functional changes as the rise of instalment selling; and finally the influence of changes in government policy.

The third element of the preliminary survey was presented by Leon Henderson, executive secretary of the committee. Dr. Lubin had outlined the economy in terms of population and income, and Dr. Thorp in terms of the institutional pattern or structure of business. Mr. Henderson synthesized the three outlines in terms of economic ideology. National income, he said, had failed to keep pace with population, and production was far below 1929; yet if it equalled 1929, there would still be 8,000,000 unemployed. He estimated that the index of production (now about 100) must reach 140 to absorb the unemployed. The American system has depended for its success upon its capacity to adapt itself to continuous changes. The decline in competition had made this system less flexible, less capable of adaptation to change. Competition had given place to concentration, and concentration had replaced price flexibility with price rigidity, not by monopoly, but by "price leadership." The "revulsion against risk," Mr. Henderson felt, was largely responsible for the 11,000,000 unemployed. Reliance on monetary manipulation as an economic panacea had largely declined. Over-saving constituted a problem; England had enjoyed recovery with diminishing savings.

Mr. Henderson raised a number of questions, mostly related to the decline of competition and the rise of economic concentration, and in conclusion presented an outline of the main topics of study which might engage the committee. The list was long, but included such subjects as concentration and control, price policies, effects of governmental policies, mergers, the establishment of a Bureau of Industrial Economics, etc.—an elaboration or itemization of the suggestions in the President's message of April.

This concluded the preliminary survey. Its purpose had been to describe the American economy in terms of population and income and in terms of the structural organization, and relate the effects of concentration and the absence of competition resulting from various forms of concentration upon this economy.

**C**ONCENTRATION of economic power became a recognized issue in the American economy almost fifty years ago. The issue was met by the passage of the Sherman Anti-Trust Act prohibiting combinations "in restraint of trade," i.e. of competition. Stating it in the broadest terms, the anti-trust laws for almost fifty years have neither been enforced nor repealed. That is, vigorous action has taken the form of spasmodic trust-busting crusades; but in spite of these crusades our economic history for the past two generations has shown a continuous tendency toward con-

centration. The existence of the statutes seems to have had more effect on *form* than on *fact*.

The identical tendency has been observable abroad, but, generally speaking, it has there been legally unopposed, and has led to the acceptance of the organization of industry in recognized cartels, and the more or less complete elimination of competition within the scope of the cartel. In several countries, the cartelization of industry appears to have facilitated the transition to the authoritarian or totalitarian type of economy. In the United States, the cartel has been de jure prohibited by the anti-trust laws; but de facto there has been a considerable adoption of the substance, if not the form, of the cartel. The general tendency of our economy has been in continuous conflict with the spirit, if not the letter, of the law; and every intimation of strict enforcement or of a strengthening of these acts has naturally been an extremely disturbing influence. It is not intended to imply that American business men have been habitual law-breakers nor that American officials have been derelict in their enforcement of the laws. It is intended to point out that economic tendencies were pushing in one way, and legislation was pushing in another; that over the period of fifty years, the economic tendencies have in general prevailed.

**T**HE American public has attempted to have the best of two merits. Generally speaking, it accepted the tendency toward concentration, and insisted upon the retention of the anti-trust laws. This attitude was inconsistent, to say the least; and the result has been the development of a kind of limbo in American business, wherein enterprise developed practices that were not sufficiently illegal to insure prosecution and not sufficiently legal to assure protection. The existence of this "twilight zone" of trade practices has been recognized for decades, without provoking enough sentiment to secure legislation that would enforce the discontinuance of these practices nor enough sentiment to secure legislation that would fully legitimize them.

Broadly speaking, industrial Europe accepted the cartel in legal principle; and in accepting the cartel, it appears to have accepted a considerable number of economic implications which seem demonstrated to have been inherent in it. The United States has clung to the anti-trust laws, but in spite of them has developed economic concentrations more or less analogous to cartels, and these have become so crystallized and so imbedded in our economic structure that any material alteration of the status quo would give rise to apprehensions of material economic disturbances.

This conflict between law and fact can hardly be described as satisfactory. Yet the resolution of the conflict is anything but obvious. In the earlier sections of this memorandum, it was suggested that four main methods of approach had been intimated in the discussion which preceded the assembling of the committee.

1. Approach by the avenue of the anti-trust laws, amplified, strengthened, or defined—the traditional trust-busting concept.
2. Approach by repeal of the anti-trust laws, the acceptance of concentration and cartelization, but under government supervision, regulation, or control. This approach has sometimes been described as the creation of a new NRA.
3. Approach by definition of "fair trade practice" via the method of federal licenses. This approach was sug-

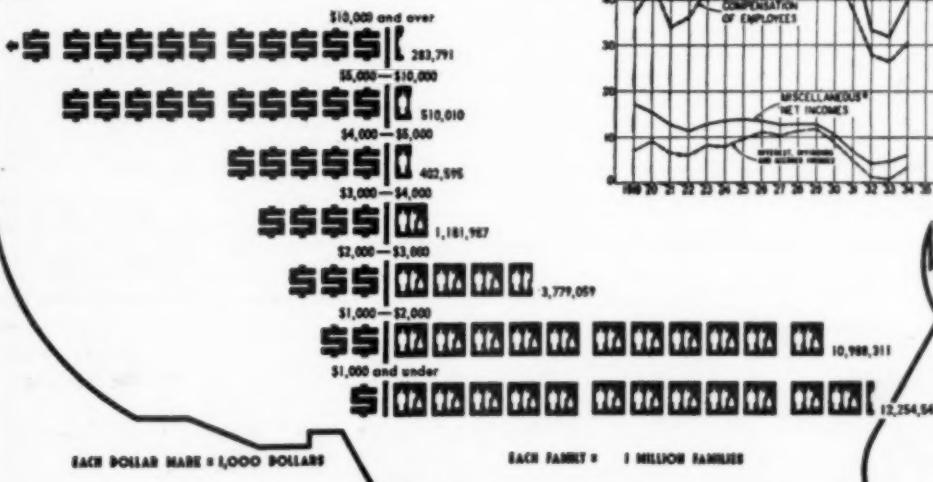
ested in the Borah-O'Mahoney bill last winter, but its principles had not been clearly expounded when the creation of the TNEC pushed it into the background.

4. Continuation of the status quo, either on the ground that no obviously better alternative had yet been devised to meet an admittedly unsatisfactory situation, or because it was deemed that the time was inopportune for action as drastic as might be indicated.

**WHILE** the committee is charged with the investigation of a great number of interesting and more or less urgent problems, its main theme is "monopoly and the concentration of economic power in and financial control over the production of goods and services"—which, stated in its simpler terms, is the investigation of the conflict between existing law and existing economic fact.

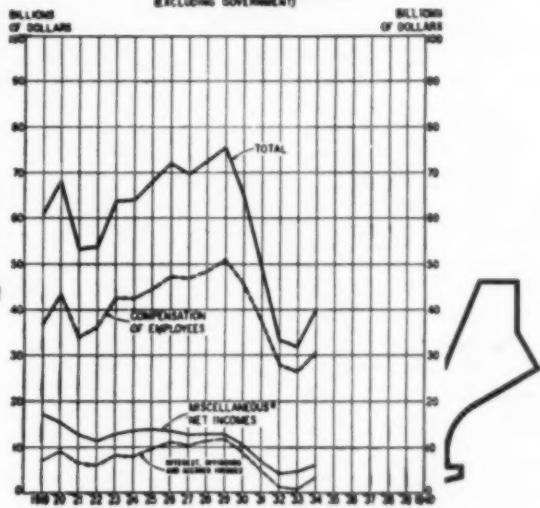
## DISTRIBUTION OF FAMILY INCOMES

1935 ~ 1936



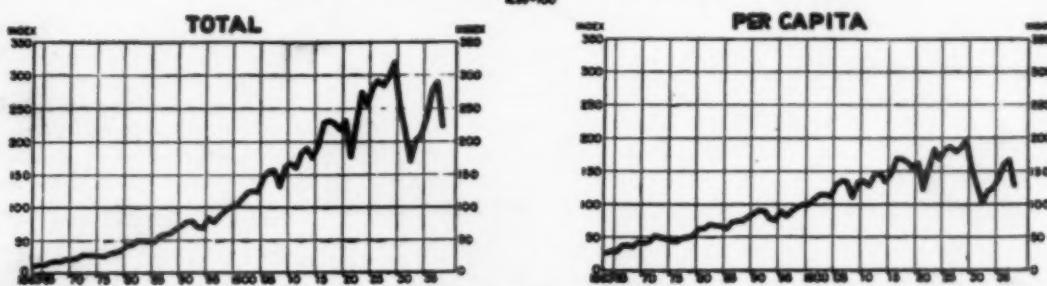
## DISTRIBUTION OF NATIONAL INCOME BY TYPE OF PAYMENT

(EXCLUDING GOVERNMENT)



## UNITED STATES INDUSTRIAL PRODUCTION

1930=100



**Distribution:** What the economists told TNEC on how the national income is split up by types of payment and by family-income levels; on how industrial production divides up on a per capita basis.

## PRODUCTION

### Silver for Coatings

**Research project finds that this field offers chief possibility for new uses.**

WHILE TREASURY OFFICIALS mull over the government's 1939 buying price for domestic silver, which must be established Dec. 31, and domestic silver producers bite their fingernails in the pious hope that the price will continue at the 1938 rate of 64.64¢ per Troy ounce, the American Silver Producers' Research Project continues effectively to plug along on its job of finding broadened industrial usage of the versatile metal (*BW—Mar 5 '38, p40*). Should the project be so fortunate as to achieve its original goal of finding "new or expanded industrial uses for 100,000,000 oz. of silver a year," there is high hope that silver will be able to resign its job as perennial political football.

As the project passes the halfway mark in its second intensive year, it is becoming "increasingly clear that the great immediate opportunity to develop a tonnage use for silver lies in the field of

coatings." The main possibility lies in the enormous and growing field of cans, 12 billion of which are used annually. There are many customers who might willingly pay twice the present price for a can which would resist certain types of corrosion. Intensive research promises to provide non-porous silver coatings to do the job. At 2¢ a can for a silver interior coating (roughly 1/20 oz. at the present world market of about \$6.50 per lb.), the cost of a beer can with a silver lining, for example, should not exceed 4¢. And if all of last year's 700 million beer cans could have been thus silver-lined, 35,000,000 of 1937's 51,798,000 oz. of newly mined domestic silver would have been out of politics this year.

#### Plating for Plastic Jars

The project is continuing its work on lining beverage and chemical containers (barrels and drums and a wide range of processing equipment), and is pushing forward the adaptation of silver to bearings and bactericides and electrical devices and such. Meanwhile private interests are doing their fair share toward putting silver to work. Metaplast Corp.,

244 Fifth Ave., New York, for example, is busy licensing molders of plastics to utilize its process of electroplating plastics and other electrically non-conductive materials with durable coatings of silver and other metals. Its most recent development is a corrosion-resistant silver plating for the interiors of plastic jars and containers for cold creams and other cosmetics which have a way of attacking certain synthetic plastics.

Perry Equipment & Supply Co., 11 North 10th Street, Philadelphia, has a new copper welding rod with a percentage of silver in its composition. With a melting point approximately 100 deg. F lower than that of pure copper, the rod lays copper welds with tensile strengths of 30,000 lb. per. sq. in., with 27% elongation.

Handy & Harman, 82 Fulton Street, New York, pioneers in precious metals, are ready for the market with a series of ductile sheets and rods and wires where silver is compounded, not alloyed, with other metallic and non-metallic substances, such as tungsten, molybdenum, graphite, nickel, iron, etc., by a semi-secret process of powdering, blending, pressing, and sintering. In a mixture of silver with tungsten or molybdenum or nickel, the ductility and high electric conductivity of silver is retained together with the hardness and wear-resistance of the other metals.

### New Steam-Electric Locomotive Ready for Rails



Designed for transcontinental service on the Union Pacific, a new type streamlined steam-electric locomotive rolled this week from General Electric's Erie shops, is expected to get double value out of each pound of fuel and to triple normal steam mileage between stops for fuel and

water. A modern oil-fired Babcock & Wilcox boiler, which is automatically controlled by devices contrived by Bailey Meter Co., furnishes 1,500-lb. steam at 920 deg. F to two 2,500-hp. G.E. geared turbine-electric generators supplying current for the drive motors.

### PRODUCTION ANGLES

#### New Nails from Old Steel

IN THE PRODUCTION of wide varieties of equipment for the conditioning, blowing and moving of air, B. F. Sturtevant Co., Hyde Park, Mass., uses huge quantities of sheet steel. Some time ago one of its smart young men discovered that four machines would make enough "cut nails" from steel scrap to take care of the company's requirements for packing, crating, and foundry.

#### Independent Patent Study

WHILE THE FEDERAL MONOPOLY INQUIRY makes headlines with its sorties into the patent system, National Industrial Conference Board, 247 Park Ave., New York, announces quietly that it will conduct an independent investigation of the whole patent problem in all its technical, legal, economic, and social phases. American Engineering Council will cooperate.

#### New Trains from Old

WITH AN EXPENDITURE of about \$15,000 per car, the Baltimore & Ohio Railroad has recently modernized its Capitol Limited, as it did its Royal Blue and Columbian some while back. Renewed patronage on the revived trains justifies the wisdom of forestalling equipment obsolescence by judicious applications of hard cash.

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## NEW PRODUCTS

### Copper-Uranium Alloy

URANIUM, "the parent element of radium," is now being added to copper by P. R. Mallory & Co., Inc., Indianapolis, to form a hard Copper-Uranium Ternary Alloy which offers improved performance and longer life to current-carrying or heat-carrying members of electrical machinery. Besides its high electrical and thermal conductivity, the new Mallory alloy offers unusual resistance to a wide variety of corrosive gases and liquids.

### Beerador

DESIGNED TO COOL and sell more beer per foot of floor space, the radical new Beerador display refrigerator has revolving shelves. Jewett Refrigerator Co., Buffalo, N. Y., equips its newest product with a



twin-cylinder compressor and a  $\frac{1}{4}$  hp. electric motor. Green Neon lights for increasing display values are optional equipment.

### Aluminum Surfaced Roofing

AS NEWEST ADDITIONS to its line of asphalt roofing and shingles, Certain-teed Products Corp., 100 E. 42nd St., New York, is offering Certain-teed Aluminum Surfaced Roofing and Shingles. Ceramic granules coated with aluminum cover the weather surfaces, reflecting heat instead of absorbing it.

### Safety Door Control

WHEN A DOWN-COMING rolling door strikes an automobile's top or a man's head, there's usually a repair job or a damage suit. But Kinnear Mfg. Co.,

Fields Ave., Columbus, O., has developed a compressible, air-containing weather-strip for the bottom of its Kinnear Motor Operated Rolling Doors which energizes an automatic switch by pneumatic action, the moment a top or head is bumped. Switch stops and/or reverses the door instantly.

### Continuous Projector

TO ELIMINATE FRICTION between film layers, and consequent scratching, Bell & Howell Co., 1801 Larchmont Ave.,



Chicago, mounts the reel of its new B&H 800-ft. Continuous Projector Attachment in a horizontal plane. The attachment

is applicable to several models of 16-mm. Filmosilent and Filmosound projectors.

### Drain Persuader

IF GREASE IS ALLOWED to congeal in drain pipes, it usually means a hurry call for the plumber. Empire State Drain Cleaner



Corp., Empire State Bldg., New York, now equips its Empire State Drain Cleaner with a hot water hose connection. After hot water softens grease accumulations, the device clears the pipe with suddenly applied air pressure of 135 lb.



## BROWN & BIGELOW Remembrance Advertising

REG. U.S. PAT. OFF.

**MAIN OFFICE AND PLANT—SAINT PAUL, MINNESOTA**

Sales offices in New York, Chicago, Boston, Philadelphia, Cincinnati, Detroit, Los Angeles, Kansas City, Buffalo, Atlanta, Indianapolis, St. Louis, Dallas, San Francisco, New Orleans, Pittsburgh, Seattle, Cleveland, Milwaukee, Denver.

## LABOR AND MANAGEMENT

### Labor Leaders Duel

**Hillman has edge in rank-and-file support as Gorman attempts comeback in textiles.**

CLEARER LIGHT is now being thrown on the row between certain Rhode Island textile union locals and the massive Textile Workers Organizing Committee. Key move in this is the attempt of Francis Gorman of the old United Textile Workers to turn the clock back to the days when he, and not Sidney Hillman, was national leader of the boys in the mills.

Open fighting started with a decision by a Rhode Island judge that the T.W.O.C. couldn't recover \$1,000 in funds held by 11 suspended locals in the Providence woolen and worsted area. The judge found that the U.T.W. had no right in March, 1937, to accept T.W.O.C. receivership without so voting in convention. On the basis of this, Gorman has been pushing demands that all U.T.W. locals quit T.W.O.C. and follow him.

Meanwhile, the T.W.O.C. lawyers are conferring about a possible appeal from the Rhode Island court decision, which left the question of relations between the committee and the U.T.W. a puzzling one. When Hillman and other C.I.O. directors agreed to steer the textile union into mass unionization, Gorman as president and the other U.T.W. officials agreed eagerly to the setup. Since the Gorman defection began, Hillman has polled the other U.T.W. executives and has found them still ready to play ball with him.

Most of the textile unions, except for

the suspended ones in and around Providence, have rallied to Hillman's support. The American Federation of Hosiery Workers, with 70,000 members, the New York City joint board speaking for 50,000, and the central union councils in Philadelphia, Utica, N. Y., Minneapolis, San Francisco, Spartanburg, N. C., Cumberland, Md., and Elizabethton, Tenn., together with approximately a hundred scattered locals, have made bitter anti-Gorman announcements within the past few days.

With Hillman and his associates, including Emil Rieve of the powerful hosiery workers, continuing to negotiate and sign union contracts with no appreciable slackening, the influence of Gorman is calculated by close observers to be confined to Providence. In that area, judging by an employee election in one plant this week, the T.W.O.C. stands at a 5-to-9 disadvantage.

#### Hillman's Backing

Easiest forecasts to make are these: Gorman, with the Providence nucleus and an open A.F.L. door, probably can get the support of any anti-Hillman elements for the asking. Hillman, however, can and does hold the firm allegiance of nearly all the textile workers, and also of Gorman's former associates in the old U.T.W. Further, Hillman has impressed business management with his anti-sitdown, no-contract-breaking policies over the past two years, and has proved that unionization under his guidance doesn't mean a return to the general strike fever which plagued the textile industry for years before he took over.

Realistic observers feel that this rally

#### "Incentive Tax" Chances

THE OUTLOOK for "incentive taxation" in the coming Congressional session is far from bright, although Sen. Vandenberg of Michigan, the main proponent of the idea, said this week: "I have no doubt that the incentive tax idea is now here to stay, and that it will find its way in some form into the next federal tax law." More likely, it will have to wait a couple of years at least before Congress approves tax exemptions to compensate the individual business for spending on new equipment and plant.

But one thing that may develop pretty soon from the "incentive tax" agitation is the spread of profit-sharing plans in big companies. The testimony of nearly 80 individuals has been heard recently by a Senate subcommittee, of which Sen. Vandenberg is co-chairman with Sen. Herring of Iowa. On the opposite page are the summarized facts about 12 of the profit-sharing plans explained in the hearings.

The official record of the testimony runs to about 1,500 pages, and will be printed and bound as a permanent textbook, available to business men around Feb. 1 on request.

ing of the rank-and-file, added to business management support, will prevent Gorman from making a dent in Hillman's power.

### Anti-Union Farmers

**Belligerent California organization decides not to go national just yet.**

UNEXPECTED DECISION of the Associated Farmers, militant California organization which so far has stymied union efforts to penetrate fields and canneries in the Golden State (*BW—Nov. 5 '38, p. 32*), to delay formation of a national setup, probably is dictated by a desire to avoid the limelight till after the impending investigation of A.F. activities by the LaFollette Senate Civil Liberties committee.

At the annual meeting of the California, Oregon, Washington, and Arizona state organizations held in Ventura, Calif., last week, and attended also by delegates from 12 other states, a committee was appointed to figure all the angles involved in forming the Associated Farmers of America. Officials give as reason for the delay a desire to avoid charges that high-pressure tactics are used to promote state groups.

The committee was given definite "go



FRANCIS GORMAN

Wide World

SIDNEY HILLMAN

Harris & Ewing

*Observers doubt that Gorman can dent Hillman's textile leadership*

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## How 12 Companies Share Profits with Employees

### **Procter & Gamble**

WITH 10,000 employees, P. & G. for years paid a profit-sharing "dividend" in cash twice a year to all employees earning \$3,000 or less per year. This cash payment later was dropped, and a credit was entered to the employee's account instead. Employees are now asked to contribute 5% of their wages to the fund, while the company contributes an average of 12%. After six years, the accumulated contributions are sufficient to pay for stock equal to the employee's yearly wage or salary. Thereafter, the employee not only gets dividends on his stock but draws a regular and increasing bonus which rises to a maximum of 15% after 15 years of service. This bonus is paid regardless of company profit.

### **Westinghouse**

THIS plan provides a flexible wage geared to actual company earnings, and does not attempt to invest or conserve his money for him. Westinghouse averages company earnings over each three months, raises wages 1% for each \$60,000 of earnings over the normal fixed total of \$600,000. Wages can decline in the same way, but those earning less than \$125 a month are not affected by a decline. In 1937 the plan brought employees \$12,100,907 extra compensation. If hard times ever depress wages to 90% of present base rates, the plan will be critically reviewed.

### **Joslyn Manufacturing & Supply Co.**

THIS CHICAGO firm has a plan which typifies those that attempt to build a competence or "estate" for the employee. Each Joslyn employee of three years' service, making \$4,000 or less annually, must join the plan or leave the company. Each pay-day, 5% of the employee's wages are deducted for payment into a profit-sharing and savings fund, controlled by a board of trustees representing company and workers equally. At year's end, the company guarantees to pay into the fund a variable amount which is not less than 10% of net operating earnings, but not more than four times the total employee contributions. The fund is used to buy stock, and now holds half of the company's \$1,500,000 preferred shares. If the employee is discharged or quits, he gets all of his own contribution with interest and half of the company contribution to his account, the rest reverting to the general fund. If he is disabled or dies, his full share is paid to him or his beneficiary. At 60, he retires and draws his share, but the company has an option of paying it in 11 annual payments if it expects that a lump sum would be squandered.

### **Eastman Kodak**

SINCE 1912, the Eastman plan has paid a wage dividend every year except in 1934. After stock dividends and all expenses, the board of directors authorizes a cash payment to employees, usually in March, on this basis: For every dollar declared above \$3.50 a share on common stock for the previous year, the worker gets a sum equaling  $\frac{1}{4}\%$  of his total wages for the previous five years. There is no restriction on how

he uses the money. At present, 22,500 employees (or 90%) participate; the rest are barred by the six-month service requirement. The plan has paid \$43,000,000 to employees, \$36,000,000 of it in the company's American plants. In addition to these payments, a sum equal to half the cash dividend is put into insurance and annuity plans.

### **Sears, Roebuck & Co.**

SINCE 1916, employees have contributed 5% of their income up to \$5,000 a year, and the company has contributed from 5 to  $7\frac{1}{2}\%$  of profits before taxes, to a fund which is used to buy Sears stock, held in trust for the employees. A discharged employee gets his savings back, plus 5% interest. Death or withdrawal during the first 10 years brings the same kind of payment. After 10 years, the employee can get his full amount of stock in a lump. There now are 38,440 persons in the fund, with \$10,678,328 invested. Company contributions, which range from  $1\frac{1}{2}$  to 8 times those made by the employee (depending on his length of service), have increased the fund about 400%, and the market value of its holdings today is \$42,662,000. In the past 22 years, 70,087 individuals have left the fund for various reasons; these had contributed \$10,929,067 and they acquired in cash or stock \$49,422,489.

### **Sheaffer Pen Co.**

FOR EACH DOLLAR expected to be paid to stockholders, the company pays each of its 1,300 employees a sum equaling 3% of his wages for the previous six months. This is done twice a year, just before Christmas and in July vacation time, and the payment is in cash with no restrictions. If the actual stock dividend runs ahead of that anticipated, retroactive adjustments are made for employees at the next wage-dividend time.

### **General Electric**

ALL THE 50,000 employees are covered by a pension plan adopted in 1912, which at first provided for a wholly company-contributed payment, based on length of service, and later was changed to employee and company contributions set up in separate trust funds. At present there is \$41,000,000 of company contributions and \$11,000,000 contributed by employees in the fund, \$21,000,000 in pensions having been paid out. Simple profit-sharing of 5% of the employee's annual wage for all having five years' service was adopted in 1916, and was dropped in 1931. In 1934, G.E. adopted its present formula: After payment of \$8 on \$100 par stock, 12 $\frac{1}{2}\%$  of the net profit is distributed among employees earning \$4,000 or less. Extra compensation is given department heads according to the increased business of the department, at the rate of 2, 3, or 5% depending on the importance of the departmental work, its competitive nature, etc.

### **Bank of America**

DISTINCTIVE in this plan, begun in 1938 and covering 81,000 employees of three months' service or more, is the provision, that profit-sharing donations are

based on salary alone, with no variations for length of service. The company sets aside a sum equal to  $7\frac{1}{2}\%$  of the salary up to \$6,000 a year, and 5% above that, which is used for investment in the bank's stock by a board of trustees. It is held for five years, with the employee receiving the dividends, and then is released to the employee. Afterwards, he receives his stock each successive year, without waiting. Delivery before the five-year date is made in case of death, discharge, or resignation. Also, the company has an optional pension plan.

### **Dow Chemical Co.**

SINCE 1916, the company has followed this procedure: After taxes, depreciation, and return on capital investment are accounted for, 20% of the monthly balance is divided into employee shares, with 40% of the sum going to supervision staff and 60% to the rank and file workers. This is paid monthly, and there is no annual payment. All employees in the two groups share equally, with anyone eligible after six months' service.

### **Jewel Tea**

PROFIT-SHARING PAYMENTS totaling \$2,521,000, and wage bonuses totaling \$459,125, have been distributed since 1934 by the company on the following plan: After allowance of a rate to stockholders of approximately \$2.25 a share, 20% of profits are distributed to employees with the exception of commission men, based on management's judgment of the individual and without specific formula. All salaries are reviewed twice a year. Jewel at first paid the profit-share entirely in cash, later turned part of it into an investment trust fund for retirement pensions, now is planning to turn it all into trust with the addition of a \$1 to \$4 weekly contribution from employees and a company contribution of 25¢ for each dollar of earnings beyond a fixed base.

### **Hoskins Manufacturing Co.**

REPRESENTATIVE of smaller companies, Hoskins with 150 employees has followed this plan since 1923: After 6% on capital investment is deducted from profits, 25% of the remainder is set aside for employees. During the past 10 years, the employees have received an average of 90% of their earnings in this way. The share is paid each February, in cash. Hoskins pays moderate wages, figuring that this means lower manufacturing costs, better competitive position, and more profits.

### **Nunn-Bush Shoe Co.**

THIS COMPANY, famous for its annual wage guarantee, copied the Sears, Roebuck plan in 1917 but discontinued it in 1932. In 1935, it agreed to pay labor 20¢ of every dollar of shoes produced, thus sharing the gross dollar rather than the net dollar (a philosophy which was strongly recommended to the Senate committee by the company). Nunn-Bush also has a profit-sharing fund for retirement pensions, to which the company contributes in years when it feels that the 80-20 split is not giving labor its fair share.

slow" orders. For the present, the A.F. will advise and encourage other state groups in using the A.F. technique, but will not send out paid organizers or attempt to form a national federation. In other words, the A.F. intends to lie low for a bit while things cool off.

## Chain Labor Deal

**American Stores, fourth biggest grocery chain, signs with two A.F.L. unions.**

APPARENTLY CONFIRMING the prediction that the big chains would permit their clerks to be organized without resistance in return for a guarantee that the union would oppose Rep. Patman's "death sentence" chain store tax (*BW—Nov 5 '38, p7*), the American Stores Co. and its subsidiary Acme Markets, Inc., this week initiated an agreement with two unions of the American Federation of Labor.

By terms of the pact the Retail Clerks International Protective Association and the Amalgamated Meat Cutters and Butchers Workmen will bargain collectively for the 6,000 employees in Pennsylvania, New Jersey, and Delaware, where the fourth biggest grocery chain has concentrated its stores.

A 13-man "Planning and Research Board" will test ideas for the signatories. Each of the unions and the company will be represented by five board members each. Specifically frowned upon in the agreement are "interruptions to the normal processes of industry, for whatever reasons."

## LABOR ANGLES

### Watch Fitzgerald

THE TIP FROM DETROIT is that Frank D. Fitzgerald, new governor, will push two smart ideas in state-wide industrial relations after his inauguration Jan. 1. Under consideration is a set of plain-spoken, direct resolutions for submission to the legislature, stating a policy of state surveillance of fair play and providing for a mediation board with power to step in and oversee negotiations in touchy situations.

### "One Shop, One Union" Fades

THE 1936-37 TREND toward inclusion of all workers in each plant into the same union seems to have bumped into the hard facts of worker-preference for fellowship with others who do the same kind of work. This hasn't changed the movement of the rank-and-file, assembly-line workers to form single units, but it has set aside higher-skilled personnel. Example: the NLRB has just certified three separate unions as collective bargaining agents at the Electric Auto-Lite

Co. in Toledo. United Automobile Workers (C.I.O.) gets production and non-production factory employees, by winning a 2,749-to-218 election; Pattern Makers Association of Toledo (Indep.) gets the pattern makers, 6-to-0; and Mechanics Educational Society (Indep.), which already had been certified as representing seven classes of workers, takes the tool inspectors on the basis of stipulation and investigation of memberships.

### Headed for the Courts

TWO LAWS restricting union activity on the West Coast, one in Oregon and one in Los Angeles, are headed for court tests, with the city ordinance likely to see action first. In Los Angeles, the unions have brought a case involving a culinary worker before the appellate department of the Superior Court, charging violation of Constitutional guarantees

of free speech. Meanwhile, this week C.I.O. and A.F.L. attorneys jointly attacked the drastic Oregon amendment (*BW—Nov 19 '38, p24*) by asking the Social Security Board to withhold federal aid for unemployment compensation in that state. Both labor federations are planning direct court tests in Oregon hoping to prove the law unconstitutional and unworkable.

### Unity in the West

HAVING ENJOYED the experience of joining hands to help defeat a state "anti-picketing" amendment, C.I.O. and A.F.L. unions in Sacramento and Stockton, Calif., decided this week to make the combination permanent. "Labor Unity Councils" in each city will look into each labor dispute and will try to get united backing for the labor side, no matter whether the union be C.I.O. or A.F.L.

## MARKETING

### McKesson Case Curbs Patman Tax

**With chain stores ably exploiting allegations of lobbying by the wholesale drug firm, chances dwindle for enactment of chain store tax. Investigation sought.**

"I WELCOME THE SUPPORT of manufacturers . . . leaders in industry . . . like McKesson & Robbins," said Rep. Wright Patman on Nov. 16, 1936, in a published advertisement (see below).

This week, with the story of the looting of McKesson & Robbins by its president, "F. Donald Coster," on the front

pages of the nation's newspapers, it appeared that that "support" given Mr. Patman by the big drug wholesale house might conceivably cost the Congressman a coveted seat on the House Ways and Means Committee, might finally destroy what chance remained for the passage in the coming session of his cherished

The headline reads: "I Welcome the Support of Manufacturers... Leaders in Industry like MCKESSON and ROBBINS". Below the headline is a small paragraph from the Minneapolis Star-Tribune. To the right is a large black and white portrait of Wright Patman. At the bottom right is the company logo for "MCKESSON & ROBBINS INCORPORATED NEW YORK BIRMINGHAM MILWAUKEE".

*Not so welcome this week were chain store comments on the "support"*

this week jointly a amendment to the Smith-Tydings National Fair Trade Enabling Act.

There might appear to be neither rhyme nor reason to these long-range developments—certainly no one would accuse either the Congressman or his independent affiliates of knowing about the masquerade of the late Philip Morris as "Coster"—but scandal makes no nice distinctions; it tars all those it touches in no matter how circuitous a fashion. Certainly, McKesson & Robbins would not be the only firm that ever lobbied in Washington, and certainly Rep. Patman would not be the only Congressman whose "expenses" incurred in a speaking tour had been paid by a private business. But the Coster incident does provide the chain and department store advertisers with an excellent opportunity to manufacture public indignation about the lobbying of the independents and the press will lap it up as good copy. Already this week, the *Chicago Tribune* was editorially demanding the "firing" of Rep. Patman out of Congress on the basis of its allegation that he received \$4,800 from McKesson & Robbins for his series of lectures on the Robinson-Patman law a year ago.

#### Chain Stores Favor Probe

Mr. Patman this week denied that he received any money from the wholesale drug firm for the lectures, and company officials, hanging all the responsibility for *affaire Patman* on the shoulders of the late president, stated that they did not know how much had been paid to the Thomas Brady Lecture Agency of New York city in securing the services of the Congressman for a series of 48 speeches. These disclaimers, however, are not expected to be effective in stopping the chain-inspired campaign. The big mass distributors, who are no tyros at lobbying themselves, were busily agitating this week for a Congressional investigation. For example: The California Chain Stores Association wired all Representatives from that state, demanding that they sponsor an investigation. In such a probe the chains hope that rumors currently being circulated might be cleared up by asking Mr. Patman the following questions:

Did you confer with Mr. Coster at his home or in Washington about the framing of the Robinson-Patman law or the Miller-Tydings act?

Did you meet Mr. Coster in a New York hotel this fall to discuss with him your bill to tax chains up to a maximum of \$50,000 a store?

Aside from the matter of the lecture tour, did you receive any money directly or indirectly from Mr. Coster in connec-

#### "Business As Usual"

THAT WAS THE WATCHWORD at the New York headquarters of McKesson & Robbins this week. Of course, it wasn't quite "as usual," for after all, company officials were beleaguered by accountants and attorneys representing a half dozen city, state, and federal government agencies. But as far as the business of moving drug products through its 115 member wholesale houses was concerned, there was no interruption in the service and solicitation of accounts, no shift in basic operating policies.

With the exception of three small creditors who turned to the courts in an effort to safeguard sums due them from the company, manufacturers continued to supply merchandise on their "usual" terms in the sure knowledge that their accounts receivable were liabilities of the trustee in bankruptcy.

As for amounts due on orders filled prior to the time of the receivership, that was so much water over the dam; creditors could only wait and see what the auditor's report finally showed about the ability of the company to pay—and there weren't any great fears about the ultimate settlement at a full 100 cents on the dollar; stockholders, not suppliers, will take the rap—if any. (Incidentally, the preliminary audit is expected early next week, but it will be six months until a full, detailed report is available.) Biggest creditors are not the regulation drug manufacturers, but

manufacturers of specialty items who supplied large stocks for the Christmas trade.

As for the retail customers of McKesson & Robbins, early fears that they might be called upon for a quick settlement of accounts were dispelled. McKesson & Robbins has always enjoyed the reputation of extending unusually large and lenient credit to move its private brand goods; hence the accounts due in the case of many retailers assume significant proportions. Any undue pressure for payment, would, however, probably result only in the return of large quantities of the McKesson goods to square the account—and that, naturally, is the last thing that McKesson wants to see happen. Things will be tough enough anyway, if—as some wishful-thinking competitors predict—the McKesson name, proudly displayed on the label of the goods, should prove a real sales deterrent.

McKesson & Robbins' manufacturing business was affected only to the extent that the Bridgeport plant was closed for the regular but somewhat extended year-end inventory and will not be re-opened until the new year. Temporarily, advertising of the McKesson drug line—mostly in newspapers—has been suspended, though advertising for the liquor lines which McKesson distributes continued uninterrupted, for this advertising is placed and paid for by the distilling companies.

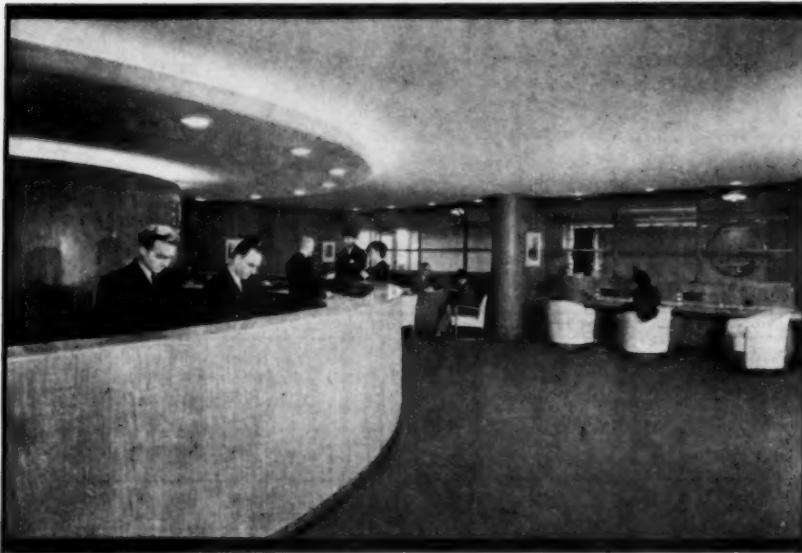
tion with laws enacted or proposed? Specifically, did you receive any money immediately following the enactment of the R-P law?

Do you know of any sums paid by McKesson & Robbins to any state or national drug associations or to any individuals to promote the passage of state or national fair trade enabling acts?

Did you receive any money for addressing the Association of National Advertisers, the National Wholesale Drugists Association, the United Wholesale Tire Dealers Association, the National Association of Real Estate Boards, or any of the other groups before which you have discussed price control legislation?

Did you or any of your associates receive any money from the company or from Mr. Coster personally to promote the organization of the Freedom of Opportunity Legion among independent merchants in Indiana, Iowa, the Southeast and elsewhere for the purpose of securing the enactment of state and local chain store taxes, such as the one just levied in Augusta, Ga.

Quite apart from the outcome of their crusade against Mr. Patman, the chains are gratified by the prospect that as a result of pitiless publicity the independents will lack, at least for a while, the powerful support which they have always received in their crusade for anti-chain legislation from the big McKesson & Robbins wholesale organization, which accounts for about a third of the nation's total drug volume. The spirit may be there—after all, the interests of its independent retail customers are McKesson & Robbins' main interests—but the substance won't be. The new management has expressed itself forcefully on that score. Lobbying is "out"—both in state and national capitals, for, quite apart from the Patman incident, McKesson & Robbins had its fingers burned in connection with fraud charges involving major political leaders in Connecticut and to which Republican Harry E. MacKenzie has already pleaded guilty. MacKenzie was reported by the grand jury to have received \$6,900 a year from McKesson & Robbins to promote passage of the state fair trade law.

**Banking—New Style**

*New quarters of the Wilshire Boulevard branch of the Security-First National Bank of Los Angeles set an extremely high standard in architectural design, convenience to customers, and use of modern devices to expedite banking transactions. There are no tellers' cages in the new quarters. Instead, customers are served at one long circular counter.*

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**Appeal from Los Angeles judge's decision on sale of non-proprietary.**

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Judge Condee, in finding Woolworth guilty, declared he was required to hold Pepsodent Antiseptic not a proprietary because of a former decision by the Los Angeles Appellate Department in People vs. McLean, a case involving Bayer's Aspirin and St. Joseph's Pure Aspirin, which were then held not to be proprietaries. Later, orally from the bench, Judge Condee said he felt his decision might be in error but that he preferred to let it stand. Most retail druggists, especially in the northern half of the state, feel that the Los Angeles druggists have got themselves into a pickle. They point out that if the Condee decision holds through the higher court and becomes binding in Los Angeles County, variety chains there need only hire licensed pharmacists for their drug counters to invade the non-proprietary field in a big way.

**MARKETING ANGLES****Townsend Brothers' Move**

IN WHAT WAS CERTAINLY the shortest advertisement ever concerned with the brothers Townsend (*BW—Jun 18 '38, p 34*), Calkins & Holden, Inc., New York advertising agency which is a subscriber to the Townsends' advertising evaluation service, announced that the two brothers would henceforth be associated with the agency as active partners. "A logical

development," commented Townsend and Townsend, of the restyled Townsend Advertising Research Institute; but the development puzzled advertising men, who wonder just why W. S. and A. J. Townsend are turning over their business to energetic Albert E. Haase, the new president and long-time associate of the brothers, at a time when the list of clients under contract has recently been expanded by the addition of the Gillette Safety Razor Co. and the Jergens-Woodbury cosmetic lines. The brothers remain affiliated with the institute only as members of the board.

**Liquor Price Cutter Fined**

NEW YORK'S ANNUAL LIQUOR price war tapered off this week as the pre-Christmas buying season came to a close. But not before one significant precedent had been established. This came when Calvert Distillers Corp. brought contempt of court action against one price-cutting retailer, who last year had been restrained by injunction, and made it stick. Supreme Court Justice Aaron Steuer held the retailer guilty and fined him \$100. Appeal to the higher courts is planned on the argument that last year's injunction permitted the retailer to match price cuts when the company failed to restrain them. Calvert Distillers Corp. points out that last week it brought action against 19 price-cutters.

**CBS Buys Columbia**

THE COLUMBIA BROADCASTING SYSTEM got its name a decade or so ago from the fact that it was owned by the Columbia Phonograph Co. But soon after its founding, CBS became a separate organization, far outstripping the parent company in size and importance. Last week the circle came full when CBS confirmed rumors of many weeks and bought from Consolidated Film Industries its subsidiary American Record Corp.—including the old Columbia Phonograph Co. CBS expects to cash in on the rapidly returning popularity of the phonograph with its new Columbia, Brunswick, and Vocalion disks. It will also be in a position to match the full record service supplied to station affiliates by its competitor, the National Broadcasting Co., through RCA-Victor.

**Slash Farm Tool Prices**

THE TWO MAJOR complaints of the Federal Trade Commission regarding the farm implement companies, in monopolistic studies made public the middle of this year (*BW—Jun 11 '38, p16; Jul 16 '38, p13*) were bigness and price rigidity. The industry hasn't done anything to eliminate concentration of the business among leading companies, but it has acted on price. Tractors and corn machinery were cut 5% to 12% in October. Now general reductions on light implements have been reduced—on the average, about 4%, but in some cases as much as 10%.

## MONEY AND THE MARKETS

FINANCE · SECURITIES · COMMODITIES

### Low Inventories Cheer Traders

**Buyers come into the market for lead, and smelters raise the price. Same sort of thing may be expected in many lines early in new year.**

PROBABLY THE MOST important bit of market news this week—and it didn't grab many headlines—was the 10-point boost in price of lead to 4.70¢ a lb., St. Louis. True, that isn't much of a rise, and it wouldn't be worthy of much attention if it weren't for a peculiar significance to business.

The price of lead had been twice cut in recent weeks during a period of weak metal markets. For some little time, consumers had held off. Then a peculiar thing happened. Buyers came into the market in force—just a short time before the end of the year, when manufacturers like to hold down inventory for year-end stock taking.

#### Orders Encourage Restocking

If buyers had been contracting for January and February delivery, it would have been regarded as normal anticipation of requirements. But the remarkable thing was that most of them wanted the metal in December. The trade concluded that inventories had been allowed to run down, that the press of manufacturers' orders was com-

pelling them to restock on lead for immediate conversion into finished goods. So smelters boosted the price.

This, if all indications are correct, may reasonably be expected to happen in many lines after the turn of the year. All surveys indicate that inventories have been kept down to very conservative levels. The fact that bank loans have expanded only ever so slightly is a further indication that manufacturers have been pretty cautious about stocking raw materials and about building reserves of their own finished products.

Meanwhile, business has improved sufficiently for slim inventories to impel restocking at any moment. The extent of this recovery is probably nowhere clearer than in the domestic rubber industry. Consumption of crude rubber, as reported by the Rubber Manufacturers Association, last month rose to 46,048 long tons, the highest since June, 1937. This total of more than 46,000 tons is almost exactly double last February's consumption, and it doesn't compare badly with the boom months of late 1936 and early 1937. Moreover,

rising rubber manufacturing operations toward the end of the year are distinctly counter to the usual seasonal trend.

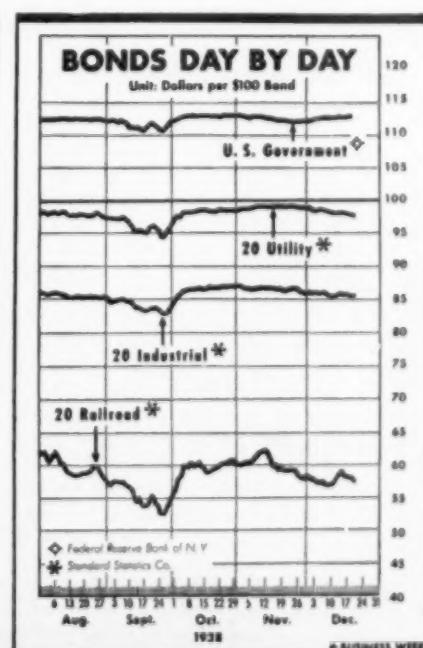
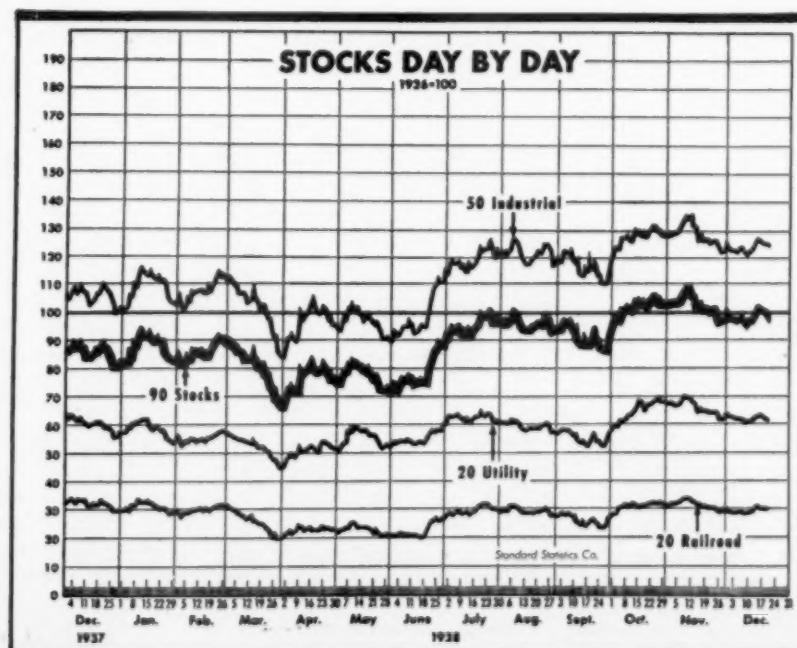
The steady and rapid rise in consumption of rubber in the United States over the last several months—in combination with the fact that the world cartel has sharply reduced shipments to this country—has resulted in a considerable reduction in warehouse supplies of crude. As recently as last April 30, warehouse stocks were a shade over 300,000 tons. The industry then was consuming less than 30,000 tons a month, so that figure was equivalent to 10 months' supply.

Increased consumption since that time has pulled warehouse stocks down to 254,318 tons, only 5½ months' supply at the November rate of consumption. Inasmuch as the cartel is continuing pretty drastic restrictions on exports of member nations, the prospect is for a further substantial draft on warehouse stocks in the first quarter of 1939.

#### Cotton Consumption Falls Off

Activity on the part of certain consumers of raw materials, however, is not by any means universal. Cotton consumption, after running at an excellent rate in November, has dwindled fairly substantially. Copper still hasn't shown any particular improvement, though producers are hopeful for the early months of next year. Commodities in general have shown little change in a long while.

A rise in prices next year would be welcome, as it would boost the earnings of raw material producers and expand purchasing power of their employees. On the other hand, there seems little indication that the seeds of inflation, so obviously present in the credit structure, will take root for some time to come.



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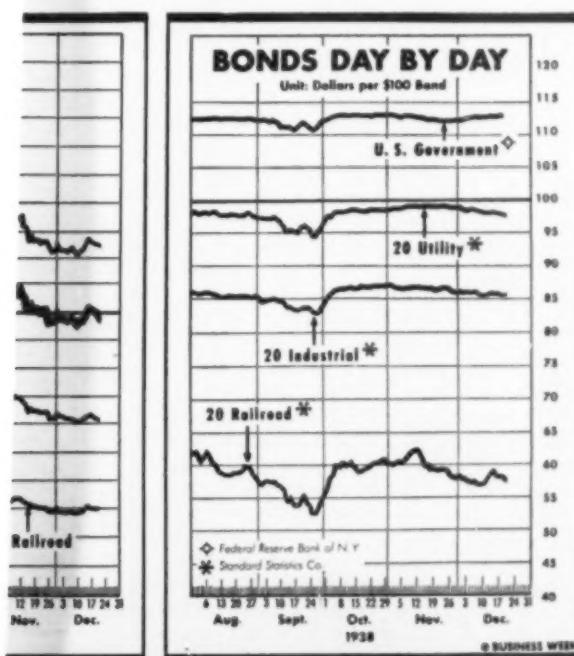
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Industrial demand for raw materials has not yet expanded enough, supplies of most commodities are too large to foster any very striking urge to buy.

Securities prices this week, instead of looking ahead to better things next year, were caught in a technical situation which made the narrow swings fairly meaningless. Volume of transactions in stocks remained fairly large, swelled by tax selling. But this tax selling, which involves switching into other securities in most instances, resulted in conflicting waves of buying and selling.

Incidentally, at a time when markets in this country are retarded by fears over what will happen in Europe, London is all ears and eyes for the trend in the United States. In commodity markets, particularly, the British expect the rate of American industrial activity to be the determining factor.

## SEC vs. Thrift Plans

### Gets injunction against biggest instalment seller, Fidelity Investment Association.

ONE OF THE MOST OBVIOUS results of the Securities and Exchange Commission's long investigation of investment trusts is the dislike the agency has developed for sale of securities on the instalment plan. This applies most specifically to the so-called thrift plans. Three of these were enjoined from certain selling practices last summer; the SEC frequently has pointed an accusing finger at the selling and carrying charges which come out of the investor's instalment payments; this week the commission obtained, by consent, an injunction against the largest of all, Fidelity Investment Association.

Thrift plans, in general, involve sale of "shares" or "certificates" or "debentures" or "annuities." All of these are evidences of proportionate interest in certain securities in which the fund is invested. In most cases a down payment is asked, after which monthly instalments are to be met each month for a period of approximately 10 years. Usually a blanket insurance policy covers all the investors, paying off their remaining instalments in case of death.

The SEC hasn't expressed so much antagonism toward operation of the funds as it has toward the claims made by many salesmen who use high-powered arguments in pushing the certificates. Frequently the complaint is that salesmen contend that the certificates become payable at a fixed face amount at the end of 10 years. In other words, the salesman contends that the subscriber pays in about \$1,300 for a certificate which can be cashed for \$2,000 when fully paid.

In most cases, the SEC contends, such a claim is outlandish because the certificates represent simply an interest in

securities owned, and prices of those securities inevitably bob up and down. The commission has checked up on actual cases in which the book value of a certificate would, at the end of 10 years, be barely equal to or even less than the payments made by the buyer.

Salesmen base their claim to "depression-proof" appreciation on a type of "averaging down" in sour markets. They point out that the company has regular amounts of money to invest each month. When stocks are high, this money will buy X number of shares of stocks. When the market drops 50%, the same amount of money will buy 2-X number of shares. So, when prices start to rise, the fund has 3-X number of shares instead of simply 2-X. All of which would work somewhat as represented if every investor kept up his payments in declining markets.

Extraordinary significance was attached to the Fidelity Association injunction action when the SEC filed it. The Fidelity, with its subsidiaries, has offices in some 57 cities, and has sold over \$600,000,000 of certificates to investors in the last 27 years. It now has about 60,000 investors and \$275,000,000 of certificates in force. On its board and among its officers are many prominent men.

The SEC's roving investigator, John T. Callahan, and Edward C. Jaegerman brought the action against Fidelity in Detroit, charging nine offenses under the federal securities laws. Among the charges were maintenance of insufficient reserves, trading on margin, setting up

fictitious profits by inter-company transactions, buying into special situations for the benefit of its officers, failing to include material facts in financial statements, and failure to restore alleged deficiencies in contract reserves.

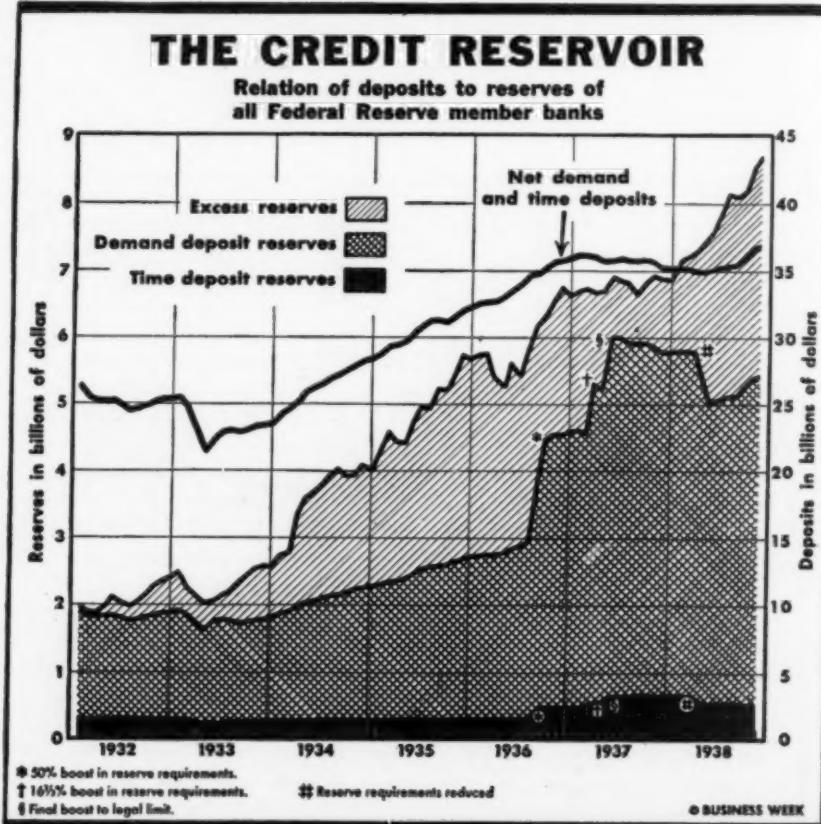
At first it was predicted in informed circles that the case would bring about a finish fight. This week, however, the Fidelity announced, through its president, Carmi A. Thompson, that the company would register under the Securities Act, and make every effort to comply, in order to avert expensive litigation, with any reasonable request the SEC might make.

The company, nevertheless, made its reply to the plea for injunctions, and Mr. Thompson declared that he emphatically denies any fraud or misrepresentation. He says the company's contracts, despite the depression, have been "carried out meticulously and without default."

## FINANCIAL ANGLES

### McKesson Aftermath

FOR MONTHS before the discovery of fraud in the crude drug division of McKesson & Robbins, the corporation's officials were discussing with investment bankers the possibilities of refunding the company's \$16,000,000 5½% convertible debentures due in 1950. Now those conversations are just so much waste of time. With the issue selling around 60¢



on the dollar, there is no chance of wangling down the coupon rate in a refunding operation. Furthermore, with the company in bankruptcy under the Chandler act, it's not necessary. If the court felt such a step desirable, it could rule on an interest reduction as part of the reorganization proceeding.

#### All About Sugar

SUGAR WILL BE MUCH in the news after the turn of the year. In the first place, hearings on downward revision of the duty on Cuba's sugar will start on Jan. 3. Second, Congress will be asked by almost all the parties involved to review and revise the Sugar Act of 1937 (BW—Dec 10 '38, p40). Timely, then is the new handbook, "Sugar Economics, Statistics and Documents," put out by the U. S. Cane Sugar Refiners' Association. The association has undertaken to do the most exhaustive job on sugar statistics and sugar facts ever edited—and with a minimum of propaganda. The book, if studied, should eliminate much of the mystery which shrouds the sugar problem. Recommended reading for Congressmen.

#### New Angle on Corners

MORALITY OF "CORNERING" commodity markets long has been questioned. And here's a ruling which, if upheld, would make it illegal. The United States Circuit Court of Appeals, in a case involving the alleged corner in July corn by Thomas Howell in 1931, says that a corner is a monopoly and a violation of the anti-trust laws. This verdict overruled the U. S. District Court, and presumably will go to the Supreme Court for the final word. If the Circuit Court is upheld, shorts can get judgments for three times their actual damages.

#### Stockholders' Letter

THERE PROBABLY is no better time to ask a stockholder to read something than when sending him a letter with a check in it. So the Borden Co. takes this occasion to tell shareholders about its part in New York's 1939 World's Fair. A folder announcing, "Here is your Borden dividend check," also features an artist's picturization of the very, very modern "dairy world of tomorrow." Inside is a reminder that Borden no longer is paying regular quarterly dividends, but rather three "interim" and one "final" payment. The message goes on to describe Borden's participation in New York's fair. The company points out that it will take part in San Francisco's fair also.

#### Expanding Farm Income

THE FARMER'S INCOME contributes mightily to the country's economic outlook, and it has long been apparent that 1938 was falling pretty far behind 1937 in this respect. But there have been gains recently. The year's farm cash income now is put at \$7,625,000,000 by the Department of Agriculture's economists.

## BUSINESS ABROAD

### Brisk Foreign Christmas Trade

**Holiday calm is expected to last into 1939, but preparations for a trade showdown continue in both the democratic and totalitarian states, with the democracies momentarily on top.**

CHRISTMAS has brought a calm to world markets which is expected to last until after the holidays. But there is a realization both in the democracies and the totalitarian states that the stage is set for a showdown in 1939, with the influence of the democracies increasing steadily as they mobilize their trade and financial resources to fight the economic policies of their rivals. With the French outlook slightly brighter, and British and United States policies unfolding along parallel

lines, the totalitarian states are confronted with the necessity for the first time of making definite proposals. Dr. Schacht's venture in London apparently met with little success. And the Japanese admit that they have been rebuffed bluntly by the United States through the granting of credit to China. This trade loan is likely to be supplemented by one from Britain.

#### Britain Supports Pound

LONDON (Cable)—Britain's Christmas trade was good, but the drastic cold wave this week has slowed sales, and boosted prices of foods.

Rebellion against the Chamberlain appeasement policies is gathering momentum and coming out into the open. A general election now seems assured during the first quarter of 1939. Meanwhile, British opposition to the economic and political policies of the totalitarian states is gathering momentum. Dr. Schacht ran into a much firmer Britain during his London visit than at any time in the last several years.

Britain will support the pound actively. Official support came into the market this week, and the government has reimposed the full bans on foreign lending which were partly removed early this year.

#### Heavier German Taxes

BERLIN (Cable)—New year prospects for private business are gloomy. Planning and regimentation are being tightened all round, while rising production costs and higher taxes threaten a further serious reduction of profits.

As new year gifts, business anticipates increases in corporation and income taxes, and an increase in the percentage of impounded dividends, even at a time when industry badly needs all available funds for reequipment.

Following the appointment of a dictator for the automobile industry (BW—Dec 3 '38, p39) this practice is being extended to other key industries by the nomination of special commissioners with dictatorial powers for the machinery and building industries. The main object is to increase the capacity of all industries by coordination of facilities. One ominous note is the emphasis laid on the expansion

#### Trouble Shooter



*Growing rebellion in Britain to Chamberlain's "appeasement" policy, and the official threat to meet Germany's export subsidies with even larger subsidies were responsible for Dr. Hjalmar Schacht's hurried visit to London. The spectacular drop in exports has Germans worried over future foreign trade.*

of the shipbuilding industry. This is interpreted in some quarters to mean that Germany is planning to join the naval armament race.

The Reich's 1938 trade deficit will amount to 230,000,000 marks, against an export surplus of 425,000,000 last year. Including Austria, the estimated deficit will reach 485,000,000. With the growing resistance to the German trade offensive by the United States in South America, and by Britain in other markets, the outlook for balancing foreign trade, maintaining needed raw material imports at present levels, and servicing foreign debts on present terms is now darker than ever.

### France Is Bullish

**PARIS (Wireless)**—Marketwise, France is having its brightest Christmas in several years. The franc has been strong, compared with the British pound. Markets are cheerful. There is a minimum of labor trouble, and international diplomatic problems have been pushed out of mind during the Noël season. Traders are optimistic and look for a continuation of the bullish trend.

### Screws on Soviet Labor

**MOSCOW (Cable)**—Russia is preparing for a new deal.

Lax discipline, enormous labor turnover, excessive maternity leaves, weak management caused by interference from Communist party leaders or the meddling of local social organization, and the payment of disability insurance for accidents which didn't really occur in a plant—all of these things are going under the microscope in the Soviet Union at the beginning of the new year. Kremlin authorities at last have acknowledged that a lot of the shortcomings of industry during the last few years have really been the fault of the system rather than of sabotaging by malcontents. Pressure is accumulating in an enormous *vox populi* campaign which is expected to come to a head just when parliament meets in January. Evidently Soviet authorities have decided that the time has come to correct the worst abuses by law rather than by an appeal to the social conscience of the workers.

Russia now allows a four months' leave at time of childbirth. This period is likely to be shortened. It is estimated that more than 120,000,000 workdays were lost last year due to absence on maternity leave.

Soviet workers are going to be compelled to stick to their jobs instead of wandering from place to place. The Stalin automobile plant at Moscow during September, October, and November alone lost 5,000 workers and took on 6,000 new ones, each of whom required special training.

The efficiency campaign will strike at factory truancy. The Moscow ball bearing plant—one of the largest in the world

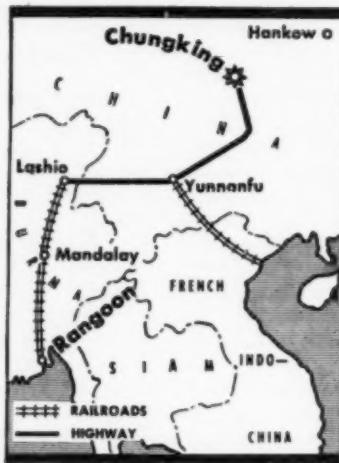
MORE THAN 150,000 Chinese coolies are working with feverish haste on a highway through the towering mountains of southwestern China. They are working under armed guards, and are allowed to return to their home villages only when they have completed grading and repairing the section of the highway assigned to them.

The reason for the pressure is the necessity for the Chinese government, now temporarily quartered at Chungking, far up the Yangtze river from the last Japanese outpost, to get supplies from abroad. Two routes are open to the south: (1) to Yunnanfu, where a French railroad connects the city with the outside world through French Indo-Chinese ports; and (2) to the Burmese border, where there is a rail connection with Rangoon—far from Japanese attack. Trucks on this 500-mile stretch can't cover more than 100 miles a day until more grad-

ing and surfacing are completed. The road is closed to all but military traffic.

It is to maintain overland truck connections with these two supply inlets that China sought—and received—credit in the United States for the purchase of trucks and gasoline. Technically, the Export-Import Bank provided the \$25,000,000, five-year credit to the Universal Trading Corp., but it is guaranteed by assets of the Bank of China (a Chinese government

institution) in New York. This brings to \$52,051,412 the loans made to China since 1931. Political significance of the present loan is greater than its importance to business. It is another move in the firmer Far Eastern program adopted by the United States in October. Washington is finally taking a realistic stand. Obvious aim is to force Japan to open up its conquered territory to salesmen from all nations.



—in the second quarter of this year lost a total of 10,000 workdays through unwarranted, and most of them unpunished, absences.

The purges are evidently over. Moscow is about to start on a campaign to make workers in the Soviet Union toe the mark through rigid application of disciplinary laws.

### Canadian Christmas

**Year-end earnings are good; business is active. Grain brokers win case.**

**OTTAWA**—Canadian corporations are helping to brighten Christmas day for a good many stockholders. One of the leaders is Canada Car & Foundry Co. which reports net profit for the year ended Sept. 30 well in excess of the previous year due to expanding operations in its aircraft division.

Building Products Limited, leader in the construction supply field, has given evidence of the upswing in construction by dividend declarations which bring dis-

bursements for the current year to \$2.60 a share, compared with \$2.45 in 1937. At the same time, the Dominion Bureau of Statistics states that for 11 months of 1938 building permits totaled \$57,000,000, compared with \$52,000,000 for the corresponding period of 1937.

The debit balance of a trader in grain futures in the books of a grain exchange broker is not a gambling debt that can be evaded on the ground that it is unrecognizable under the law. It is not a debt in a bucket shop transaction such as the Canadian law is designed to suppress. It is a debt in a legitimate business deal and enforceable. Canada's Supreme Court has just ruled to this effect, upsetting judgments of Saskatchewan courts which had upheld the contention of a grain futures trader that his debts to a firm of grain brokers represented money that have been loaned him by the brokers to engage in gaming contrary to the Criminal Code.

This final decision holds that the transactions in grain futures were not gaming or wagering but legitimate business transactions in which the broker must be protected.

## FOREIGN ANGLES

### Trade with Turkey

**T**O BRITAIN, Turkey is almost an outpost of empire; it is a barrier between Britain's eastern empire and trade rivals on Continental Europe. A few months ago the British made a loan to the Turks, to be used for British goods—a part of them military equipment. This week the United States initiated a new trade agreement with the Turks. Details of the new pact have not yet been revealed but it contains two important conditions: (1) most-favored-nation treatment, and (2) payment for United States imports in "free exchange." Turkey ordinarily sells the United States fine tobacco and buys quantities of machinery and automobiles. Turkey's long-term business development program calls for big-scale mining development which is expected to create a fresh demand for equipment in this market.

### Wheat Outlook

**E**ARLY CONDITIONS are encouraging for Canada's 1939 wheat crop. This year Canada had a "normal" crop, the first in a number of years. According to the Searle Grain Co. survey, based on reports from 615 rain gauge stations,

fall rains this year have been better than for any year since 1933. In Alberta, the condition is 98% of normal; in Saskatchewan, 118%; and in Manitoba 66%. The Manitoba figure can be misleading because, with the exception of the southwestern sections, crop failures in Manitoba are comparatively unknown. Winter snowfall now becomes the major factor in the crop outlook.

### More Canadian Autos

**C**ANADA turned out 17,992 automobiles in November, the best record since May. October production amounted to only 5,774 units, and in November a year ago the total ran only to 16,574.

### Japs Want Credits

**A**NOTHER JAPANESE BUSINESS MISSION is due in this country before the end of the year, avowedly to interest United States capital in Manchukuo. The personnel of the mission indicates that it is interested primarily in mining and metallurgical equipment this time, rather than automotive production tools with which previous missions have been most concerned. Nevertheless, it is reported that Japan still plans to discuss with the Ford Motor Co. a plan for some kind of business cooperation, probably through the use of superannuated equipment from Ford plants for a new automobile factory in Manchukuo.

## Canadian Mining Industry Booms

### Drop in the price of zinc is the only worry. Gold production reaches a new peak. One-third of mining investments are held in U. S.

**O**TTAWA (Business Week Bureau)—Christmas will be made cheery this year for many a Canadian—and United States—investor because of the new boom in the mining industry. Gold production is at a new high. Established mining companies and adventurous individuals are prospecting over the whole north country.

Sole cloud on the horizon is the \$6 a ton drop in the price of zinc in New York, following the announcement of the cut in the United States import duty on zinc. The Ottawa negotiators obviously were trying to help Canada's third largest industry (after manufacturing and agriculture). Actually, the price drop, applied to Canada's annual zinc output, means a loss to Dominion producers of \$1,000,000.

Despite the backfiring of the treaty, Ottawa's goodwill towards the mining industry signifies increasing national appreciation of mining's economic life-saving service in the deep depression and recent recession periods. From a production high of \$310,000,000 in 1929, the industry receded to a depression low

of \$191,000,000 in 1932, from which it recovered 240% in five years to \$457,000,000 in 1937.

In the 1937 part of the 1937-38 recession, the industry increased output 26% over 1936; and 1938 production is about on a level with 1937.

### Where the Money Went

Distribution of last year's \$457,000,000 of new wealth from mining indicates the relation of the industry to Canadian economy. About \$305,000,000 went for payroll, equipment, supplies, and transportation. Mining's own payroll took \$135,000,000 of this for salary and wages to 105,000 people (average nearly \$1,300), and, at the usual average of three dependents per earner, it supported 420,000 of the country's 11,000,000 people. In approximate estimates, \$50,000,000 went for mining machinery and machinery supplies, \$25,000,000 for explosives, lubricants, and fuels, \$30,000,000 for food supplies, \$25,000,000 for hardware and other miners' stores, \$20,000,000 for lumber, cement, and other

building materials, and \$20,000,000 for transportation.

Shareholders in metal mines received \$105,000,000 of the \$457,000,000 in dividends. If the estimate of one leading gold mining company that 7% of its gross production goes in taxes were taken for the whole industry, taxes would account for over \$30,000,000. A good part of the \$22,000,000 remaining out of the \$457,000,000 goes in the financing of fresh prospecting and the preparing of prospects for development.

Mark Twain's idea that in mining more money goes into the ground than comes out doesn't apply to the Canadian industry. The present annual output amounts in value to just about half the total investment in the industry. The 1937 and 1938 output will give back approximately the whole input. Last year's dividends from metal mines amounted to about 12% on that investment.

### Distribution of Ownership

Of this investment, Canadians own more than half, United States investors approximately a third, British investors about a one-eighth share, investors in other countries a one-hundredth part. In 1936, \$260,000,000 of United States money was estimated to be invested in Canadian mining out of approximately \$4,000,000,000 of United States investment in Canada.

United States investors get a larger proportion of mine earnings than Canadian investors. The total capital in Canadian mining in 1935 was estimated at \$612,000,000, of which Canada contributed \$332,000,000, United States \$200,000,000; but of total dividends of \$56,000,000, United States investors got \$23,000,000 against \$29,000,000 to Canadians. Americans got about 11½% on their investment, Canadians about 9%.

Much of the Canadian money goes into prospects and new companies, while American capital is mainly in producers—much of it, it is understood, having gone into gold stocks in the last two years as a hedge against the depression. But American money also figured in the earlier development of such winners as Teck-Hughes, McIntyre, Noranda, Nipissing, Wright-Hargraves, Dome, and Premier.

The Toronto Stock Exchange is largely responsible for the financing of Canadian mining—and Canadian mining in turn has helped to make it North America's No. 2 Exchange with a daily volume of trading sometimes in excess of New York and ranging between 500,000 to 5,000,000 shares, the bulk of it mining. Its new building, opened last year, is the world's most modern exchange building. To the Huron Indians, Toronto meant "place of meeting" and now it is Canada's principal place for the meeting of mine and money.

Canadian air lines, developed to meet needs of the mining industry carry more

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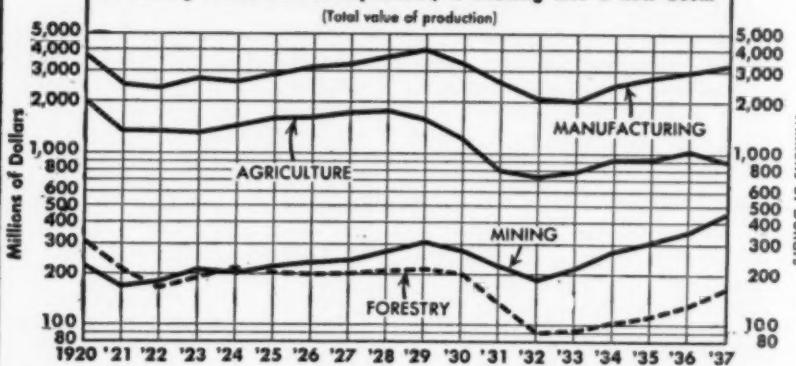
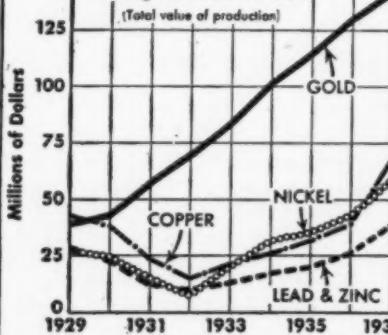
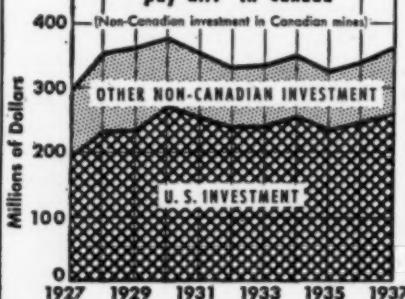
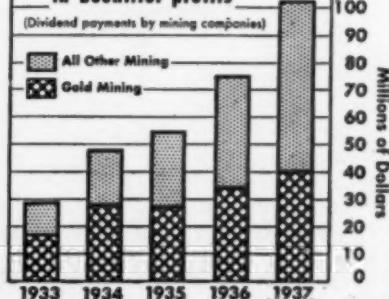
**Soviet Air Service**

THE SOVIET UNION has abandoned plans to maintain regular passenger and mail airplane service connecting Russia with Europe, apparently because of organizational difficulties which are not expected to be overcome this winter. Novikov, chief of Russia's Inter-Nation Air Lines, refused to make any explanation to BUSINESS WEEK's Moscow correspondent, but admitted that there will be only sporadic flights this winter between Moscow and Stockholm, and that only "special loads" will be carried. This winter's flights will be in the nature of experimental service, possibly leading to regular year-round passenger-mail service in 1939. Now that Prague is safely within the German orbit, there is little possibility that Soviet Russia will maintain its Moscow-Prague summer airline which would necessitate flights over Soviet territory by Czechoslovakian airmen.

freight than is carried in any other country. Geological, atmospheric, and other conditions in the north country mining regions have been overcome by the technical developments of mining engineers and equipment manufacturing companies in Canada. Technical and scientific advances to solve mining problems and to respond to the industry's original needs have been especially pronounced in connection with electrical equipment.

Even sky-limit mining adventurers are

open-mouthed at the latest report from Toronto and north country meeting places. It's talk of a projected gold-mining installation designed to put Canada in front of the world by several jumps—a 50,000-ton daily capacity gold ore crushing mill. No country has one. Canada's present 136 gold mills have combined capacity of 45,000 tons, the largest one 12,000. Money flowing from Britain and Europe since the September crisis is encouraging such expansion ideas.

**CANADIAN MINING PROFITS SOAR****1. Mining cushioned the depression, is heading into a new boom****2. Mineral production is higher than in 1929****3. So are employment and payrolls****4. U.S. investors discovered "pay dirt" in Canada****5. And have shared in bountiful profits**

Data: Dominion Bureau of Statistics; Toronto Stock Exchange.

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## EDITORIALLY SPEAKING

### Optimist

JUST EAST of Trinidad, Col., a grinning youngster alongside the track, thumbing a ride on the fleeting "Super-Chief." Some day that lad will make a star salesman. He has three of the essentials: good nature; a sense of humor; and—he is not afraid to ask for an order.

### Add Alumni

TWO WEEKS AGO I cited a few of the Patterson alumni who have attained high executive places and suggested that there must be more of them. It appears that there are. Here are just a few, nominated by loyal fellow alumni and their friends:

Thomas J. Watson, president, International Business Machines; Alvan Macauley, president, Packard Motor Car Co.; E. S. Jordan, former president, Jordan Motor Car Co.; R. H. Grant, vice-president, General Motors Corp.; Charles F. Kettering, president, General Motors Research Corp.; F. A. Wagner, Monarch Engineering Co.; Jacob Oswald, president, Roto-Speed Co.; William Pfleum, president, Burke Manufacturing Co.; Lee Olwell, former publisher, New York *Journal*; Harry Ford and Lee Counselman, of the Saxon Motor Car Co.; J. E. Rogers, president of Addressograph-Multigraph Corp.; John Lauver, late treasurer, Burroughs Adding Machine Co.; J. J. Nance, vice-president, Frigidaire Air Conditioning Corp.; Col. E. A. Deeds, president, National Cash Register Co.; E. T. Gibbs and E. St. Elmo Lewis, of advertising fame.

For these added alumni, thanks to B. L. Kilgour, Jr., vice-president, The Cincinnati and Suburban Telephone Co.; W. A. McDermid, of W. A. McDermid & Associates and C. W. Hamilton, one-time publicity manager of N.C.R. and now sales promotion manager for The Globe-Wernicke Co.

### Demurrer

E. B. RAESLY, of the Raesly Lumber Co., writes from Plankinton, So. Dak., demurring to my recent piece entitled "Case Study." He puts the achievement of the fellows there cited in the "believe-it-or-not" class, contends that it proves nothing as to the opportunities for the "small-town business man" out his way.

He thinks, moreover, that "it would be interesting to you and your readers if you New Yorkers would get out of the plane or Pullman and put your feet on the ground somewhere west of Chicago, where we raise and produce your raw materials and consume a great many of your knick-knacks." There, he suggests, we'd find business opportunities not so hot.

As one "New Yorker" who has "put his feet on the ground" in several towns out Brother Raesly's way during the last year, I can understand his skepticism. It's mighty distressful and sobering to visit town after town wholly dependent on crops that for six or seven years have not materialized. To understand that, let any manufacturer imagine how he would feel, after putting his capital and his labor into his business for a whole year, to see his produce burned to cinders or swept away in a tidal wave. Out there, the farmers have had just that experience, not just once but for six or seven years in a row. And Raesly is quite right when he points out that government aid alone has saved from catastrophe, not only the farmers but also the small- and large-town business men dependent on their trade. As I have talked with them, I have admired the courage and optimism with which they have been taking their salty dose. Always, it is a matter of "just let us make one good crop and we'll be on our feet."

But I admire equally the common sense that bids them add: "While the government checks and spending have saved us from being wiped out, we know perfectly well that this can't go on indefinitely." They know, as I suspect Brother Raesly knows too, that this cannot be the final answer to the farmer's dilemma. The point he wants to make is that the farmer's problem is equally the problem of business. And on that point I stand with him: sometimes I feel that it may be the number one problem of business. Certainly it is the most complicated and elusive problem. That is why it was so heartening to have the National Association of Manufacturers give it an important place in its recent Congress.

All of which, however, does not dull in the slightest the point made in "Case Study." That was simply that opportunity is not dead unless we kill it; that the road still is open to men with ideas and energy unless we deliberately close it. Mr. Raesly objects that only "2 out of 100 or 200" could do what those fellows did. So what? There never was and never will be a time when *everybody* could or can do it. But if we keep the road reasonably open for those who can do that particular thing, we create other opportunities for the rest of us who can do other things. There is a vast difference between government aid to drought-stricken farmers and a government planned economy, designed to supplant the individual working for himself, by a government agency, composed, after all, of individuals working for some bureau. And no one knows this better than the American farmer.

W.T.C.

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## BUSINESS WEEK

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339 W. 42d STREET NEW YORK

# BUSINESS WEEK

*The Journal of Business News and Interpretation*

December 24, 1938

## Auditing the McKesson Affair

**I**N THE MCKESSON & ROBBINS CASE, hindsight is a dangerous asset. Now that it has become common knowledge that F. Donald Coster, the former president of the big drug company, was a masquerader, that he had a criminal record, that the inventories of his crude drug department were tissue paper pyramids, it is fashionable to be skeptical of corporation officials, directors, and auditors in general.

It's the same fashion that followed the Ivar Kreuger exposé. That scandal also disturbed high places in Wall Street; it, too, was possible only because men placed a cash value on a false front. Musica, alias Coster, had the valuable knack of spellbinding bankers and business associates into believing in him. By forgeries and fake entries in his books, he was able to get Price, Waterhouse & Co. to certify that McKesson & Robbins balance sheets and earnings statements were presented "in accordance with accepted principles of accounting." When Price, Waterhouse was taken in by these forgeries, officers, directors and investors took the McKesson reports as gospel and were lulled into a sense of "certified" security.

But the fact is that the accountants never certified to the physical existence of McKesson & Robbins inventories. Price, Waterhouse merely said that the company's books indicated the existence of crude drug assets. There is, in the official company balance sheet, a specific escape clause, stating that inventories were "certified as to quantity and condition by responsible officials." And the "responsible officials" for the crude drug department were Coster and his brothers.

**W**HAT HAPPENED, then, was that officers, directors, and investment analysts read more into the Price, Waterhouse certification than it actually contained. That is understandable. Customarily, accountants check on the internal bookkeeping methods of corporations, and in the process they are likely to discover any improprieties. But when a corporation executive, with authority to hire and fire subordinates, sets out on a dishonest course to fool accountants—and succeeds—then such a certification is meaningless.

Moreover, accountants do not normally check physical inventories unless the corporation (which means the management) asks them to. Only two months ago, the American Institute of Accountants made a survey on inventory practices among its membership

with this discordant result: "There was presented a rather sharp division of opinion as to whether it was incumbent upon the accountant to concern himself, in ordinary course, with an actual physical test count of his own of the quantities inventoried."

Thus it becomes clear that accountants themselves disagree on the responsibilities they accept when they certify accounts. But the public has been led to assume that when an accounting firm puts its seal on a corporation report the inventories have been certified. Therefore, it behooves the accounting profession either (a) to disabuse the public mind or (b) to do what the public expects, either by checking inventories directly or by hiring appraisers.

**O**F COURSE, in the final analysis there is no way to prevent dishonesty, particularly dishonesty implemented by such genius as Coster possessed. But the case does point to a loophole in corporate affairs.

No one connected with the company was entirely independent of its president; no one could be the man from Missouri and demand to be shown his private province—the crude drug division. Officials of the company were beholden to Coster for their jobs, hence could not ask too many questions. The accountants depended for their fees on Coster and could not go beyond his orders. The directors could not go behind the information which he and the auditors gave them. (In banks in the United States, directors have their own auditors, responsible directly to them; in England, accountants are responsible to stockholders.)

The moral in the McKesson case is not to be drawn from Coster's dishonesty, but rather from the revelation that the checks set up to control management may be subject to control by management itself.

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